

UBS AG  
Form 6-K  
October 31, 2018

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

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

**Date: October 31, 2018**

**UBS AG**

**Commission File Number: 1-15060**

(Registrant's Name)

Bahnhofstrasse 45, Zurich, Switzerland and  
Aeschenvorstadt 1, Basel, Switzerland

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(Address of principal executive offices)

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

Form 20-F  x

Form 40-F  o

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

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Third quarter 2018 report

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## **Corporate calendar UBS AG**

Publication of the Annual Report 2018:

Friday, 1 March 2019

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

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## Third quarter 2018 report

## UBS AG consolidated key figures

| <i>CHF million, except where indicated</i>                   | As of or for the quarter ended |         |          |         | As of or year-to-date |         |
|--|--------------------------------|---------|----------|---------|-----------------------|---------|
|  | <b>30.9.18</b>                 | 30.6.18 | 31.12.17 | 30.9.17 | 30.9.18               | 30.9.17 |
| <b>Results</b>   |                                |         |          |         |                       |         |
| Operating income   | <b>7,375</b>                   | 7,641   | 7,242    | 7,279   | 22,839                | 22,237  |
| Operating expenses   | <b>5,843</b>                   | 6,089   | 6,487    | 6,117   | 17,971                | 17,993  |
| Operating profit / (loss) before tax                         | <b>1,532</b>                   | 1,553   | 755      | 1,161   | 4,868                 | 4,244   |
| Net profit / (loss) attributable to shareholders             | <b>1,137</b>                   | 1,183   | (2,412)  | 904     | 3,690                 | 3,257   |
| <b>Key performance indicators<sup>1</sup></b>                |                                |         |          |         |                       |         |
| <b>Profitability and growth</b>                              |                                |         |          |         |                       |         |
| Return on tangible equity (%)                                | <b>10.5</b>                    | 10.9    | (21.0)   | 8.0     | 11.3                  | 9.6     |
| Cost / income ratio (%)                                      | <b>79.1</b>                    | 79.4    | 88.5     | 84.1    | 78.5                  | 80.8    |
| Net profit growth (%)  | <b>25.8</b>                    | 5.3     |          | 6.9     | 13.3                  | 26.8    |
| <b>Resources</b>   |                                |         |          |         |                       |         |
| Common equity tier 1 capital ratio (%) <sup>2</sup>          | <b>13.7</b>                    | 13.4    | 14.0     | 14.0    | 13.7                  | 14.0    |
| Common equity tier 1 leverage ratio (%) <sup>2</sup>         | <b>3.83</b>                    | 3.73    | 3.75     | 3.76    | 3.83                  | 3.76    |
| Going concern leverage ratio (%) <sup>2</sup>                | <b>4.6</b>                     | 4.5     | 4.2      | 4.2     | 4.6                   | 4.2     |
| <b>Additional information</b>                                |                                |         |          |         |                       |         |
| <b>Profitability</b>   |                                |         |          |         |                       |         |
| Return on equity (%)   | <b>9.1</b>                     | 9.4     | (18.6)   | 6.9     | 9.8                   | 8.3     |
| Return on risk-weighted assets, gross (%) <sup>3</sup>       | <b>11.7</b>                    | 12.1    | 12.4     | 12.3    | 12.2                  | 12.9    |
| Return on leverage ratio denominator, gross (%) <sup>3</sup> | <b>3.3</b>                     | 3.4     | 3.3      | 3.3     | 3.4                   | 3.4     |
| <b>Resources</b>   |                                |         |          |         |                       |         |
| Total assets   | <b>933,091</b>                 | 945,296 | 916,363  | 914,551 | 933,091               | 914,551 |
| Equity attributable to shareholders                          | <b>50,136</b>                  | 49,961  | 50,718   | 53,246  | 50,136                | 53,246  |
| Common equity tier 1 capital <sup>2</sup>                    | <b>34,392</b>                  | 33,686  | 33,240   | 33,337  | 34,392                | 33,337  |
| Risk-weighted assets <sup>2</sup>                            | <b>251,428</b>                 | 251,648 | 236,606  | 237,322 | 251,428               | 237,322 |
| Going concern capital ratio (%) <sup>2</sup>                 | <b>16.5</b>                    | 16.2    | 15.6     | 15.6    | 16.5                  | 15.6    |
|  | <b>31.3</b>                    | 31.7    | 31.4     | 31.5    | 31.3                  | 31.5    |

|   |                |         |         |         |         |         |
|---|----------------|---------|---------|---------|---------|---------|
| Total loss-absorbing capacity ratio (%) <sup>2</sup>          |                |         |         |         |         |         |
| Leverage ratio denominator <sup>2</sup>                       | <b>898,894</b> | 903,467 | 887,189 | 885,896 | 898,894 | 885,896 |
| Total loss-absorbing capacity leverage ratio (%) <sup>2</sup> | <b>8.8</b>     | 8.8     | 8.4     | 8.4     | 8.8     | 8.4     |
| <b>Other</b>  |                |         |         |         |         |         |
| Invested assets (CHF billion) <sup>4</sup>                    | <b>3,267</b>   | 3,242   | 3,179   | 3,054   | 3,267   | 3,054   |
| Personnel (full-time equivalents) <sup>5</sup>                | <b>47,091</b>  | 46,597  | 46,009  | 48,949  | 47,091  | 48,949  |

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 the UBS Group third quarter 2018 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 September 2018, the breakdown of personnel by business division and Corporate Center unit was: Global Wealth Management: 23,495; Personal & Corporate Banking: 5,114; Asset Management: 2,292; Investment Bank: 4,721; Corporate Center – Services: 11,265; Corporate Center – Group ALM: 161; Corporate Center – Non-core and Legacy Portfolio: 45.

## Introduction

### **Structure of this report**

UBS Group AG is the holding company for the UBS Group and the parent company of UBS AG. 100% of UBS AG's issued shares are held by UBS Group AG. Financial information for UBS AG consolidated does not differ materially from that for UBS Group AG consolidated.

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

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

### **Comparison UBS Group AG consolidated vs UBS AG consolidated**

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

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

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

– UBS Group AG consolidated equity was CHF 1.0 billion higher compared to the equity of UBS AG consolidated as of 30 September 2018, 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 in the UBS AG scope of consolidation. 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 3.7 billion lower than going concern capital of UBS Group AG consolidated as of 30 September 2018, reflecting additional tier 1 (AT1) capital of CHF 3.9 billion partly offset by higher common equity tier 1 (CET1) capital of CHF 0.2 billion.

– CET1 capital of UBS AG consolidated was CHF 0.2 billion higher than that of UBS Group AG consolidated as of 30 September 2018. The main drivers are differences in equity, in deductions for compensation-related regulatory capital components and in dividend accruals.

– Going concern loss-absorbing AT1 capital of UBS AG consolidated was CHF 3.9 billion lower than that of UBS Group AG consolidated as of 30 September 2018, reflecting Deferred Contingent Capital Plan awards and AT1 capital notes. These AT1 capital notes were issued by UBS Group Funding (Switzerland) AG, a direct subsidiary of UBS Group AG, after the implementation of the new Swiss SRB framework, and only qualify as gone concern loss-absorbing capacity at the UBS AG consolidated level.

→ **Refer to “Holding company and significant regulated subsidiaries and sub-groups” at [www.ubs.com/investors](http://www.ubs.com/investors) for an illustration of the consolidation scope differences between UBS AG and UBS Group AG**

→ **Refer to the “Capital management” section of this report for more information on differences in the loss-absorbing capacity between UBS Group AG consolidated and UBS AG consolidated**

## Introduction

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

|  | <b>As of or for the quarter ended 30.9.18</b> |                       |                   |
|--|---|-----------------------|-------------------|
|  | <b>UBS Group AG</b>                           | <b>UBS AG</b>         | <b>Difference</b> |
| <i>CHF million, except where indicated</i>                                     | <b>(consolidated)</b>                         | <b>(consolidated)</b> | <b>(absolute)</b> |
| <b>Income statement</b>  |   |                       |                   |
| Operating income   | <b>7,279</b>                                  | <b>7,375</b>          | (96)              |
| Operating expenses   | <b>5,611</b>                                  | <b>5,843</b>          | (231)             |
| Operating profit / (loss) before tax   | <b>1,668</b>                                  | <b>1,532</b>          | 136               |
| <i>of which: Global Wealth Management</i>                                      | <b>932</b>                                    | <b>923</b>            | 9                 |
| <i>of which: Personal &amp; Corporate Banking</i>                              | <b>413</b>                                    | <b>414</b>            | (1)               |
| <i>of which: Asset Management</i>  | <b>120</b>                                    | <b>120</b>            | 0                 |
| <i>of which: Investment Bank</i>   | <b>472</b>                                    | <b>462</b>            | 11                |
| <i>of which: Corporate Center</i>  | <b>(269)</b>                                  | <b>(385)</b>          | 116               |
| <i>of which: Services</i>  | <b>(118)</b>                                  | <b>(215)</b>          | 97                |
| <i>of which: Group ALM</i>   | <b>(127)</b>                                  | <b>(146)</b>          | 20                |
| <i>of which: Non-core and Legacy Portfolio</i>                                 | <b>(24)</b>                                   | <b>(24)</b>           | 0                 |
| Net profit / (loss)  | <b>1,249</b>                                  | <b>1,140</b>          | 109               |
| <i>of which: net profit / (loss) attributable to shareholders</i>              | <b>1,246</b>                                  | <b>1,137</b>          | 109               |
| <i>of which: net profit / (loss) attributable to preferred noteholders</i>     |   |                       |                   |
| <i>of which: net profit / (loss) attributable to non-controlling interests</i> | <b>3</b>                                      | <b>3</b>              | 0                 |
| <b>Statement of comprehensive income</b>                                       |   |                       |                   |
| Other comprehensive income   | <b>(973)</b>                                  | <b>(963)</b>          | (10)              |
| <i>of which: attributable to shareholders</i>                                  | <b>(973)</b>                                  | <b>(963)</b>          | (10)              |
| <i>of which: attributable to preferred noteholders</i>                         |   |                       |                   |
| <i>of which: attributable to non-controlling interests</i>                     | <b>0</b>                                      | <b>0</b>              | 0                 |
| Total comprehensive income   | <b>276</b>                                    | <b>177</b>            | 99                |
| <i>of which: attributable to shareholders</i>                                  | <b>273</b>                                    | <b>174</b>            | 99                |
| <i>of which: attributable to preferred noteholders</i>                         |   |                       |                   |
| <i>of which: attributable to non-controlling interests</i>                     | <b>3</b>                                      | <b>3</b>              | 0                 |
| <b>Balance sheet</b>   |   |                       |                   |

|   |                |                |         |
|---|----------------|----------------|---------|
| Total assets  | <b>932,471</b> | <b>933,091</b> | (619)   |
| Total liabilities   | <b>881,311</b> | <b>882,917</b> | (1,606) |
| Total equity  | <b>51,160</b>  | <b>50,174</b>  | 986     |
| <i>of which: equity attributable to shareholders</i>              | <b>51,122</b>  | <b>50,136</b>  | 986     |
| <i>of which: equity attributable to non-controlling interests</i> | <b>38</b>      | <b>38</b>      | 0       |
| <b>Capital information</b>  |                |                |         |
| Common equity tier 1 capital                                      | <b>34,167</b>  | <b>34,392</b>  | (225)   |
| Going concern capital   | <b>45,115</b>  | <b>41,432</b>  | 3,683   |
| Risk-weighted assets  | <b>252,247</b> | <b>251,428</b> | 819     |
| Common equity tier 1 capital ratio (%)                            | <b>13.5</b>    | <b>13.7</b>    | (0.1)   |
| Going concern capital ratio (%)                                   | <b>17.9</b>    | <b>16.5</b>    | 1.4     |
| Total loss-absorbing capacity ratio (%)                           | <b>31.8</b>    | <b>31.3</b>    | 0.4     |
| Leverage ratio denominator  | <b>898,000</b> | <b>898,894</b> | (894)   |
| Common equity tier 1 leverage ratio (%)                           | <b>3.80</b>    | <b>3.83</b>    | (0.02)  |
| Going concern leverage ratio (%)                                  | <b>5.0</b>     | <b>4.6</b>     | 0.4     |
| Total loss-absorbing capacity leverage ratio (%)                  | <b>8.9</b>     | <b>8.8</b>     | 0.2     |

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| As of or for the quarter ended 30.6.18 |                |            | As of or for the quarter ended 31.12.17 |                |            |
|--|----------------|------------|---|----------------|------------|
| UBS Group AG                           | UBS AG         | Difference | UBS Group AG                            | UBS AG         | Difference |
| (consolidated)                         | (consolidated) | (absolute) | (consolidated)                          | (consolidated) | (absolute) |
| 7,554                                  | 7,641          | (88)       | 7,122                                   | 7,242          | (120)      |
| 5,875                                  | 6,089          | (213)      | 6,266                                   | 6,487          | (221)      |
| 1,679                                  | 1,553          | 126        | 855                                     | 755            | 100        |
| 1,037                                  | 1,027          | 9          | 782                                     | 778            | 4          |
| 368                                    | 368            | 0          | 392                                     | 393            | (1)        |
| 101                                    | 101            | 0          | 238                                     | 238            | 0          |
| 569                                    | 549            | 20         | 49                                      | 50             | (1)        |
| (396)                                  | (492)          | 96         | (605)                                   | (704)          | 99         |
| (172)                                  | (260)          | 88         | (155)                                   | (252)          | 97         |
| (206)                                  | (214)          | 8          | (214)                                   | (217)          | 3          |
| (18)                                   | (18)           | 0          | (236)                                   | (236)          | 0          |
| 1,285                                  | 1,184          | 101        | (2,310)                                 | (2,385)        | 75         |
| 1,284                                  | 1,183          | 101        | (2,336)                                 | (2,412)        | 76         |
|  |                |            |   | 26             | (26)       |
| 1                                      | 1              | 0          | 27                                      | 0              | 27         |
|  |                |            |   |                |            |
| 1,057                                  | 1,066          | (8)        | 184                                     | 187            | (3)        |
| 1,060                                  | 1,068          | (8)        | (124)                                   | (122)          | (2)        |
|  |                |            |   | 307            | (307)      |
| (2)                                    | (2)            | 0          | 309                                     | 2              | 307        |
| 2,342                                  | 2,250          | 92         | (2,125)                                 | (2,198)        | 73         |
| 2,343                                  | 2,251          | 92         | (2,461)                                 | (2,534)        | 73         |
|  |                |            |   | 333            | (333)      |
| (1)                                    | (1)            | 0          | 336                                     | 3              | 333        |
|  |                |            |   |                |            |
| 944,482                                | 945,296        | (813)      | 915,642                                 | 916,363        | (721)      |
| 893,649                                | 895,275        | (1,626)    | 864,371                                 | 865,588        | (1,217)    |
| 50,834                                 | 50,021         | 813        | 51,271                                  | 50,775         | 496        |
| 50,774                                 | 49,961         | 813        | 51,214                                  | 50,718         | 496        |
| 60                                     | 60             | 0          | 57                                      | 57             | 0          |
|  |                |            |   |                |            |
| 33,817                                 | 33,686         | 132        | 32,671                                  | 33,240         | (569)      |
| 44,956                                 | 40,823         | 4,133      | 41,911                                  | 36,906         | 5,005      |
| 252,373                                | 251,648        | 724        | 237,494                                 | 236,606        | 888        |
| 13.4                                   | 13.4           | 0.0        | 13.8                                    | 14.0           | (0.2)      |
| 17.8                                   | 16.2           | 1.6        | 17.6                                    | 15.6           | 2.0        |
| 32.3                                   | 31.7           | 0.6        | 33.0                                    | 31.4           | 1.6        |
| 902,408                                | 903,467        | (1,058)    | 886,116                                 | 887,189        | (1,073)    |
| 3.75                                   | 3.73           | 0.02       | 3.69                                    | 3.75           | (0.06)     |

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|     |     |     |     |     |     |
|-----|-----|-----|-----|-----|-----|
| 5.0 | 4.5 | 0.5 | 4.7 | 4.2 | 0.5 |
| 9.0 | 8.8 | 0.2 | 8.8 | 8.4 | 0.4 |
|     |     |     |     |     | 5   |

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Risk and capital management

Management report

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Risk management and control

Risk management and control

### **UBS AG consolidated risk profile**

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

The credit risk profile of UBS AG consolidated differs from that of UBS Group AG consolidated primarily in relation to receivables of UBS AG and UBS Switzerland AG from UBS Group AG. As a result of these receivables, total banking products exposure of UBS AG consolidated as of 30 September 2018 was CHF 2.1 billion or 0.4% higher than the exposure of UBS Group, compared with CHF 2.3 billion or 0.5% as of 30 June 2018.

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

## Capital management

**Going and gone concern requirements and information**

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

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

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

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

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

| As of 30.9.18                                       | <b>Swiss SRB, including transitional arrangements</b> |               |             |               | <b>Swiss SRB as of 1.1.20</b> |               |             |               |
|---|---|---------------|-------------|---------------|-------------------------------|---------------|-------------|---------------|
| <i>CHF million, except where indicated</i>          | <b>RWA</b>  |               | <b>LRD</b>  |               | <b>RWA</b>                    |               | <b>LRD</b>  |               |
|   | <b>in %</b>   |               | <b>in %</b> |               | <b>in %</b>                   |               | <b>in %</b> |               |
| <b>Required loss-absorbing capacity</b>             |   |               |             |               |                               |               |             |               |
| <b>Common equity tier 1 capital</b>                 | <b>9.72</b>   | <b>24,451</b> | <b>2.90</b> | <b>26,068</b> | <b>10.26</b>                  | <b>25,809</b> | <b>3.50</b> | <b>31,461</b> |
| <i>of which: minimum capital</i>                    | <b>5.40</b>   | <b>13,577</b> | <b>1.90</b> | <b>17,079</b> | <b>4.50</b>                   | <b>11,314</b> | <b>1.50</b> | <b>13,483</b> |
| <i>of which: buffer capital</i>                     | <b>4.06</b>   | <b>10,208</b> | <b>1.00</b> | <b>8,989</b>  | <b>5.50</b>                   | <b>13,829</b> | <b>2.00</b> | <b>17,978</b> |
| <i>of which: countercyclical buffer<sup>2</sup></i> | <b>0.26</b>   | <b>666</b>    |             |               | <b>0.26</b>                   | <b>666</b>    |             |               |
| <b>Maximum additional tier 1 capital</b>            | <b>3.40</b>   | <b>8,549</b>  | <b>1.10</b> | <b>9,888</b>  | <b>4.30</b>                   | <b>10,811</b> | <b>1.50</b> | <b>13,483</b> |
| <i>of which: high-trigger</i>                       | <b>2.60</b>   | <b>6,537</b>  | <b>1.10</b> | <b>9,888</b>  | <b>3.50</b>                   | <b>8,800</b>  | <b>1.50</b> | <b>13,483</b> |

|  |                         |               |                         |               |                          |               |                         |               |
|--|-------------------------|---------------|-------------------------|---------------|--------------------------|---------------|-------------------------|---------------|
| <i>loss-absorbing<br/>additional tier 1<br/>minimum capital<br/>of which:<br/>high-trigger<br/>loss-absorbing<br/>additional tier 1<br/>buffer capital</i> | <b>0.80</b>             | <b>2,011</b>  |                         |               | <b>0.80</b>              | <b>2,011</b>  |                         |               |
| <b>Total going<br/>concern capital</b>   | <b>13.12</b>            | <b>32,999</b> | <b>4.00</b>             | <b>35,956</b> | <b>14.56<sup>3</sup></b> | <b>36,620</b> | <b>5.00<sup>3</sup></b> | <b>44,945</b> |
| Base gone<br>concern<br>loss-absorbing<br>capacity,<br>including<br>applicable<br>add-ons and<br>rebate  | <b>7.65<sup>4</sup></b> | <b>19,244</b> | <b>2.58<sup>4</sup></b> | <b>23,191</b> | <b>12.30<sup>5</sup></b> | <b>30,921</b> | <b>4.30<sup>5</sup></b> | <b>38,652</b> |
| <b>Total gone<br/>concern<br/>loss-absorbing<br/>capacity</b>  | <b>7.65</b>             | <b>19,244</b> | <b>2.58</b>             | <b>23,191</b> | <b>12.30</b>             | <b>30,921</b> | <b>4.30</b>             | <b>38,652</b> |
| <b>Total<br/>loss-absorbing<br/>capacity</b>   | <b>20.78</b>            | <b>52,244</b> | <b>6.58</b>             | <b>59,147</b> | <b>26.86</b>             | <b>67,541</b> | <b>9.30</b>             | <b>83,597</b> |
| <b>Eligible<br/>loss-absorbing<br/>capacity</b>  |                         |               |                         |               |                          |               |                         |               |
| <b>Common equity<br/>tier 1 capital</b>  | <b>13.68</b>            | <b>34,392</b> | <b>3.83</b>             | <b>34,392</b> | <b>13.68</b>             | <b>34,392</b> | <b>3.83</b>             | <b>34,392</b> |
| <b>High-trigger<br/>loss-absorbing<br/>additional tier<br/>1 capital<sup>6</sup></b>   | <b>5.13</b>             | <b>12,893</b> | <b>1.43</b>             | <b>12,893</b> | <b>2.80</b>              | <b>7,040</b>  | <b>0.78</b>             | <b>7,040</b>  |
| <i>of which:<br/>high-trigger<br/>loss-absorbing<br/>additional tier 1<br/>capital</i>   | <b>2.80</b>             | <b>7,040</b>  | <b>0.78</b>             | <b>7,040</b>  | <b>2.80</b>              | <b>7,040</b>  | <b>0.78</b>             | <b>7,040</b>  |
| <i>of which:<br/>low-trigger<br/>loss-absorbing<br/>tier 2 capital</i>   | <b>2.33</b>             | <b>5,853</b>  | <b>0.65</b>             | <b>5,853</b>  |                          |               |                         |               |
| <b>Total going<br/>concern capital</b>   | <b>18.81</b>            | <b>47,285</b> | <b>5.26</b>             | <b>47,285</b> | <b>16.48</b>             | <b>41,432</b> | <b>4.61</b>             | <b>41,432</b> |
| <b>Gone concern<br/>loss-absorbing<br/>capacity</b>  | <b>12.54</b>            | <b>31,531</b> | <b>3.51</b>             | <b>31,531</b> | <b>14.87</b>             | <b>37,384</b> | <b>4.16</b>             | <b>37,384</b> |
| <i>of which:<br/>TLAC-eligible</i>   | <b>11.05</b>            | <b>27,789</b> | <b>3.09</b>             | <b>27,789</b> | <b>11.05</b>             | <b>27,789</b> | <b>3.09</b>             | <b>27,789</b> |

*debt*

|   |              |               |             |               |              |               |             |               |
|---|--------------|---------------|-------------|---------------|--------------|---------------|-------------|---------------|
| <b>Total gone concern loss-absorbing capacity</b> | <b>12.54</b> | <b>31,531</b> | <b>3.51</b> | <b>31,531</b> | <b>14.87</b> | <b>37,384</b> | <b>4.16</b> | <b>37,384</b> |
| <b>Total loss-absorbing capacity</b>              | <b>31.35</b> | <b>78,816</b> | <b>8.77</b> | <b>78,816</b> | <b>31.35</b> | <b>78,816</b> | <b>8.77</b> | <b>78,816</b> |

**Risk-weighted assets / leverage ratio denominator**

|                            |                |                |
|----------------------------|----------------|----------------|
| Risk-weighted assets       | <b>251,428</b> | <b>251,428</b> |
| Leverage ratio denominator | <b>898,894</b> | <b>898,894</b> |

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 Going concern capital ratio requirements include countercyclical buffer requirements of 0.26%. 3 Includes applicable add-ons of 1.44% for risk-weighted assets (RWA) and 0.5% for leverage ratio denominator (LRD). 4 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. 5 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. 6 Includes outstanding low-trigger loss-absorbing tier 2 capital instruments, which are available under the transitional rules of the Swiss SRB framework to meet the going concern requirements until the earlier of (i) their maturity or first call date or (ii) 31 December 2019, and to meet gone concern requirements thereafter. Outstanding low-trigger loss-absorbing tier 2 capital instruments are subject to amortization starting five years prior to their maturity, with the amortized portion qualifying as gone concern loss-absorbing capacity. Instruments available to meet gone concern requirements are eligible until one year before maturity, with a haircut of 50% applied in the last year of eligibility.

## Capital management

**Swiss SRB going and gone concern information**

|   | <b>Swiss SRB, including</b>      |                     |                       | <b>Swiss SRB as of 1.1.20</b> |                     |          |
|---|----------------------------------|---------------------|-----------------------|-------------------------------|---------------------|----------|
|   | <b>transitional arrangements</b> |                     |                       |                               |                     |          |
| <i>CHF million, except where indicated</i>                        | <b>30.9.18</b>                   | 30.6.18             | 31.12.17 <sup>1</sup> | <b>30.9.18</b>                | 30.6.18             | 31.12.17 |
| <b>Going concern capital</b>                                      |                                  |                     |                       |                               |                     |          |
| <b>Common equity tier 1 capital</b>                               | <b>34,392<sup>2</sup></b>        | 33,686 <sup>2</sup> | 36,042                | <b>34,392<sup>2</sup></b>     | 33,686 <sup>2</sup> | 33,240   |
| High-trigger loss-absorbing additional tier 1 capital             | <b>7,040</b>                     | 7,138               | 2,371 <sup>3</sup>    | <b>7,040</b>                  | 7,138               | 3,666    |
| <b>Total loss-absorbing additional tier 1 capital</b>             | <b>7,040</b>                     | 7,138               | 2,371                 | <b>7,040</b>                  | 7,138               | 3,666    |
| <b>Total tier 1 capital</b>                                       | <b>41,432</b>                    | 40,823              | 38,412                | <b>41,432</b>                 | 40,823              | 36,906   |
| Low-trigger loss-absorbing tier 2 capital <sup>4</sup>            | <b>5,853</b>                     | 6,339               | 7,874                 |                               |                     |          |
| <b>Total tier 2 capital</b>                                       | <b>5,853</b>                     | 6,339               | 7,874                 |                               |                     |          |
| <b>Total going concern capital</b>                                | <b>47,285</b>                    | 47,163              | 46,286                | <b>41,432</b>                 | 40,823              | 36,906   |
| <b>Gone concern loss-absorbing capacity<sup>5</sup></b>           |                                  |                     |                       |                               |                     |          |
| Low-trigger loss-absorbing additional tier 1 capital <sup>6</sup> | <b>2,313</b>                     | 2,357               | 1,183                 | <b>2,313</b>                  | 2,357               | 1,183    |
| <b>Total tier 1 capital</b>                                       | <b>2,313</b>                     | 2,357               | 1,183                 | <b>2,313</b>                  | 2,357               | 1,183    |
| Low-trigger loss-absorbing tier 2 capital <sup>4</sup>            | <b>743</b>                       | 376                 | 378                   | <b>6,596</b>                  | 6,716               | 8,252    |
| Non-Basel III-compliant tier 2 capital <sup>7</sup>               | <b>686</b>                       | 696                 | 689                   | <b>686</b>                    | 696                 | 689      |
| <b>Total tier 2 capital</b>                                       | <b>1,429</b>                     | 1,072               | 1,067                 | <b>7,283</b>                  | 7,412               | 8,941    |
| <b>TLAC-eligible debt</b>   | <b>27,789</b>                    | 29,123              | 27,233                | <b>27,789</b>                 | 29,123              | 27,233   |
| <b>Total gone concern loss-absorbing capacity</b>                 | <b>31,531</b>                    | 32,552              | 29,483                | <b>37,384</b>                 | 38,892              | 37,357   |
| <b>Total loss-absorbing capacity</b>                              |                                  |                     |                       |                               |                     |          |
| <b>Total loss-absorbing capacity</b>                              | <b>78,816</b>                    | 79,715              | 75,769                | <b>78,816</b>                 | 79,715              | 74,263   |

**Risk-weighted assets  
/ leverage ratio  
denominator**

|                            |                            |                      |         |                            |                      |         |
|----------------------------|----------------------------|----------------------|---------|----------------------------|----------------------|---------|
| Risk-weighted assets       | <b>251,428<sup>2</sup></b> | 251,648 <sup>2</sup> | 237,456 | <b>251,428<sup>2</sup></b> | 251,648 <sup>2</sup> | 236,606 |
| Leverage ratio denominator | <b>898,894</b>             | 903,467              | 888,687 | <b>898,894</b>             | 903,467              | 887,189 |

**Capital and  
loss-absorbing  
capacity ratios (%)**

|   |             |      |      |             |      |      |
|---|-------------|------|------|-------------|------|------|
| Going concern capital ratio                         | <b>18.8</b> | 18.7 | 19.5 | <b>16.5</b> | 16.2 | 15.6 |
| <i>of which: common equity tier 1 capital ratio</i> | <b>13.7</b> | 13.4 | 15.2 | <b>13.7</b> | 13.4 | 14.0 |
| Gone concern loss-absorbing capacity ratio          | <b>12.5</b> | 12.9 | 12.4 | <b>14.9</b> | 15.5 | 15.8 |
| Total loss-absorbing capacity ratio                 | <b>31.3</b> | 31.7 | 31.9 | <b>31.3</b> | 31.7 | 31.4 |

**Leverage ratios (%)**

|  |             |      |      |             |      |      |
|--|-------------|------|------|-------------|------|------|
| Going concern leverage ratio                         | <b>5.3</b>  | 5.2  | 5.2  | <b>4.6</b>  | 4.5  | 4.2  |
| <i>of which: common equity tier 1 leverage ratio</i> | <b>3.83</b> | 3.73 | 4.06 | <b>3.83</b> | 3.73 | 3.75 |
| Gone concern leverage ratio                          | <b>3.5</b>  | 3.6  | 3.3  | <b>4.2</b>  | 4.3  | 4.2  |
| Total loss-absorbing capacity leverage ratio         | <b>8.8</b>  | 8.8  | 8.5  | <b>8.8</b>  | 8.8  | 8.4  |

1 As of 31 December 2017, the 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 September 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, available under "Pillar 3 disclosures" at [www.ubs.com/investors](http://www.ubs.com/investors) for more information. 3 High-trigger loss-absorbing additional tier 1 capital of CHF 3,666 million was partly offset by required deductions for goodwill of CHF 1,296 million. 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 The relevant capital instruments were issued after the new Swiss SRB framework had been implemented and therefore qualify as gone concern loss-absorbing capacity. 7 Non-Basel III-compliant tier 2 capital instruments qualify as gone concern instruments.





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

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

| As of 30.9.18<br>CHF million,<br>except where<br>indicated | Swiss SRB, including transitional<br>arrangements |                          |             | Swiss SRB as of 1.1.20         |                          |
|--|---|--------------------------|-------------|--------------------------------|--------------------------|
|  | UBS Group AG<br>(consolidated)                    | UBS AG<br>(consolidated) | Differences | UBS Group AG<br>(consolidated) | UBS AG<br>(consolidated) |

#### Going concern capital

|  |        |        |       |        |        |
|--|--------|--------|-------|--------|--------|
| <b>Common equity tier 1 capital<sup>1</sup></b>        | 34,167 | 34,392 | (225) | 34,167 | 34,392 |
| High-trigger loss-absorbing additional tier 1 capital  | 8,633  | 7,040  | 1,594 | 8,633  | 7,040  |
| Low-trigger loss-absorbing additional tier 1 capital   | 2,314  |        | 2,314 | 2,314  |        |
| <b>Total loss-absorbing additional tier 1 capital</b>  | 10,948 | 7,040  | 3,908 | 10,948 | 7,040  |
| <b>Total tier 1 capital</b>                            | 45,115 | 41,432 | 3,683 | 45,115 | 41,432 |
| High-trigger loss-absorbing tier 2 capital             | 427    |        | 427   |        |        |
| Low-trigger loss-absorbing tier 2 capital <sup>2</sup> | 5,853  | 5,853  | 0     |        |        |
| <b>Total tier 2 capital</b>                            | 6,281  | 5,853  | 427   |        |        |
| <b>Total going concern capital</b>                     | 51,395 | 47,285 | 4,110 | 45,115 | 41,432 |

#### Gone concern loss-absorbing capacity<sup>3</sup>

|  |  |                    |         |  |                    |
|--|--|--------------------|---------|--|--------------------|
| Low-trigger loss-absorbing additional tier 1 capital |  | 2,313 <sup>4</sup> | (2,313) |  | 2,313 <sup>4</sup> |
| <b>Total tier 1 capital</b>                          |  | 2,313              | (2,313) |  | 2,313              |

|   |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
| Low-trigger<br>loss-absorbing<br>tier 2 capital <sup>2</sup>      | 743     | 743     | 0       | 6,596   | 6,596   |
| Non-Basel<br>III-compliant tier<br>2 capital                      | 686     | 686     | 0       | 686     | 686     |
| <b>Total tier 2<br/>capital</b>                                   | 1,429   | 1,429   | 0       | 7,283   | 7,283   |
| <b>TLAC-eligible<br/>debt</b>                                     | 27,789  | 27,789  | 0       | 27,789  | 27,789  |
| <b>Total gone<br/>concern<br/>loss-absorbing<br/>capacity</b>     | 29,218  | 31,531  | (2,313) | 35,071  | 37,384  |
| <b>Total<br/>loss-absorbing<br/>capacity</b>                      |         |         |         |         |         |
| <b>Total<br/>loss-absorbing<br/>capacity</b>                      | 80,614  | 78,816  | 1,798   | 80,186  | 78,816  |
| <b>Risk-weighted assets /<br/>leverage ratio denominator</b>      |         |         |         |         |         |
| Risk-weighted<br>assets <sup>1</sup>                              | 252,247 | 251,428 | 819     | 252,247 | 251,428 |
| Leverage ratio<br>denominator                                     | 898,000 | 898,894 | (894)   | 898,000 | 898,894 |
| <b>Capital and<br/>loss-absorbing<br/>capacity ratios<br/>(%)</b> |         |         |         |         |         |
| Going concern<br>capital ratio                                    | 20.4    | 18.8    | 1.6     | 17.9    | 16.5    |
| <i>of which:</i>  |         |         |         |         |         |
| <i>common equity<br/>tier 1 capital<br/>ratio</i>                 | 13.5    | 13.7    | (0.1)   | 13.5    | 13.7    |
| Gone concern<br>loss-absorbing<br>capacity ratio                  | 11.6    | 12.5    | (1.0)   | 13.9    | 14.9    |
| Total<br>loss-absorbing<br>capacity ratio                         | 32.0    | 31.3    | 0.6     | 31.8    | 31.3    |
| <b>Leverage<br/>ratios (%)</b>                                    |         |         |         |         |         |
| Going concern<br>leverage ratio                                   | 5.7     | 5.3     | 0.5     | 5.0     | 4.6     |
|   | 3.80    | 3.83    | (0.02)  | 3.80    | 3.83    |

*of which:*

*common equity*

*tier 1 leverage*

*ratio*

Gone concern

3.3

3.5

(0.3)

3.9

4.2

leverage ratio

Total

loss-absorbing

9.0

8.8

0.2

8.9

8.8

capacity

leverage ratio

1 IFRS 9 expected credit loss adoption effects for exposures treated under the standardized approach 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 February 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 September 2018 Pillar 3 report for the UBS Group and significant regulated subsidiaries and sub-groups, available under "Pillar 3 disclosures" at [www.ubs.com/investors](http://www.ubs.com/investors) for more information. 2 Under the transitional rules of the Swiss SRB framework, outstanding low-trigger loss-absorbing tier 2 capital instruments are subject to amortization starting from 1 January 2019 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 The relevant capital instruments were issued under the new Swiss SRB framework had been implemented and therefore qualify as gone concern loss-absorbing capacity.

## Capital management

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

As of 30.9.18

|   | <b>UBS Group AG</b>   | <b>UBS AG</b>         |                    |
|---|-----------------------|-----------------------|--------------------|
| <i>CHF million</i>  | <b>(consolidated)</b> | <b>(consolidated)</b> | <b>Differences</b> |
| <b>Total IFRS equity</b>  | 51,160                | 50,174                | 986                |
| Equity attributable to preferred noteholders and non-controlling interests  | (38)                  | (38)                  | 0                  |
| Defined benefit plans   | (31)                  | (31)                  | 0                  |
| Deferred tax assets recognized for tax loss carry-forwards  | (6,024)               | (6,024)               | 0                  |
| Deferred tax assets on temporary differences, excess over threshold   | (97)                  | (31)                  | (66)               |
| Goodwill, net of tax  | (6,414)               | (6,414)               | 0                  |
| Intangible assets, net of tax   | (180)                 | (180)                 | 0                  |
| Compensation-related components (not recognized in net profit)  | (2,154)               |                       | (2,154)            |
| Expected losses on advanced internal ratings-based portfolio less provisions  | (383)                 | (383)                 | 0                  |
| Unrealized (gains) / losses from cash flow hedges, net of tax   | 498                   | 498                   | 0                  |
| Unrealized own credit related to financial liabilities designated at fair value, net of tax, and replacement values | 19                    | 19                    | 0                  |
| Unrealized gains related to debt instruments at fair value through OCI, net of tax                                  | (2)                   | (2)                   | 0                  |
| Prudential valuation adjustments  | (122)                 | (122)                 | 0                  |
| Other <sup>1</sup>  | (2,066)               | (3,074)               | 1,008              |
| <b>Total common equity tier 1 capital</b>   | <b>34,167</b>         | <b>34,392</b>         | <b>(225)</b>       |

<sup>1</sup> Includes accruals for dividends to shareholders for the current year and other items.

**Total loss-absorbing capacity and leverage ratio information under Swiss SRB rules applicable as of 1 January 2020**

Going concern capital of UBS AG consolidated was CHF 3.7 billion lower than going concern capital of UBS Group AG consolidated as of 30 September 2018, primarily reflecting additional tier 1 (AT1) capital of CHF 3.9 billion, partly offset by higher common equity tier 1 (CET1) capital of CHF 0.2 billion. The gone concern loss-absorbing capacity was CHF 2.3 billion higher, due to CHF 2.3 billion higher low-trigger loss-absorbing AT1 capital.

CET1 capital of UBS AG consolidated was CHF 0.2 billion higher than that of UBS Group AG consolidated, primarily due to the deductions for compensation-related regulatory capital

components that are only reflected at the level of UBS Group AG consolidated. This effect was largely offset by lower equity of UBS AG consolidated, as well as a higher dividend accrual at the UBS AG level.

Going concern loss-absorbing AT1 capital of UBS AG consolidated was CHF 3.9 billion lower than that of UBS Group AG consolidated and relates to AT1 capital notes issued by UBS Group Funding (Switzerland) AG, a direct subsidiary of UBS Group AG, as well as Deferred Contingent Capital Plan awards granted to eligible employees for the performance years 2014 to 2017.

The difference of CHF 2.3 billion in gone concern low-trigger AT1 capital relates to capital instruments that were issued by UBS AG after the new Swiss SRB framework had been implemented and are therefore not recognized within going concern capital but qualify as gone concern loss-absorbing capacity. Issuances of low-trigger AT1 capital from UBS Group AG were all made prior to implementation of the new Swiss SRB framework and therefore qualify as going concern capital.

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

The leverage ratio framework for UBS AG consolidated is consistent with that of UBS Group AG consolidated. As of 30 September 2018, the going concern leverage ratio of UBS AG consolidated was 0.4 percentage points lower than that of UBS Group AG consolidated, mainly as the going concern capital of UBS AG consolidated was CHF 3.9 billion lower.

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

→ **Refer to the “Introduction” section of this report for more information on the differences in equity between UBS AG consolidated and UBS Group AG**

Consolidated  
financial statements

Unaudited

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| <b>29</b> | <b>7</b>  | <u>Income taxes</u>  |
| <b>30</b> | <b>8</b>  | <u>Expected credit loss measurement</u>                          |
| <b>34</b> | <b>9</b>  | <u>Fair value measurement</u>                                    |
| <b>43</b> | <b>10</b> | <u>Derivative instruments</u>                                    |
| <b>44</b> | <b>11</b> | <u>Other assets and liabilities</u>                              |
| <b>46</b> | <b>12</b> | <u>Debt issued designated at fair value</u>                      |
| <b>46</b> | <b>13</b> | <u>Debt issued measured at amortized cost</u>                    |
| <b>47</b> | <b>14</b> | <u>Provisions and contingent liabilities</u>                     |
| <b>55</b> | <b>15</b> | <u>Guarantees, commitments and forward starting transactions</u> |
| <b>55</b> | <b>16</b> | <u>Events after the reporting period</u>                         |
| <b>56</b> | <b>17</b> | <u>Currency translation rates</u>                                |
| <b>57</b> | <b>18</b> | <u>Transition to IFRS 9 as of 1 January 2018</u>                 |

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UBS AG interim consolidated  
financial statements (unaudited)

**Income statement**

| <i>CHF million</i>   | Note | For the quarter ended |         |         | Year-to-date |         |
|--|------|-----------------------|---------|---------|--------------|---------|
|  |      | <b>30.9.18</b>        | 30.6.18 | 30.9.17 | 30.9.18      | 30.9.17 |
| Interest income from financial instruments measured at amortized cost and fair value through |      |                       |         |         |              |         |
| other comprehensive income   |      | <b>2,492</b>          | 2,473   | 2,579   | 7,217        | 7,510   |
| Interest expense from financial instruments measured at amortized cost                       |      | <b>(1,641)</b>        | (1,583) | (1,378) | (4,554)      | (3,869) |
| Interest income from financial instruments measured at fair value through profit or loss     |      | <b>1,777</b>          | 1,715   | 1,032   | 5,086        | 3,082   |
| Interest expense from financial instruments measured at fair value through profit or loss    |      | <b>(979)</b>          | (1,637) | (503)   | (3,405)      | (1,902) |
| Net interest income  |      | <b>1,649</b>          | 967     | 1,729   | 4,344        | 4,822   |
| Other net income from fair value changes on financial instruments                            |      | <b>1,145</b>          | 2,182   | 1,090   | 4,793        | 3,990   |
| Credit loss (expense) / recovery   | 8    | <b>(9)</b>            | (28)    | 7       | (62)         | (39)    |
| Fee and commission income  |      | <b>4,779</b>          | 4,799   | 4,694   | 14,478       | 14,246  |
| Fee and commission expense   |      | <b>(401)</b>          | (416)   | (442)   | (1,226)      | (1,327) |
| Net fee and commission income  | 3    | <b>4,378</b>          | 4,383   | 4,252   | 13,252       | 12,920  |
| Other income   | 4    | <b>212</b>            | 137     | 200     | 513          | 544     |
| Total operating income   |      | <b>7,375</b>          | 7,641   | 7,279   | 22,839       | 22,237  |
| Personnel expenses   | 5    | <b>3,331</b>          | 3,524   | 3,598   | 10,411       | 11,253  |
| General and administrative expenses  | 6    | <b>2,233</b>          | 2,308   | 2,282   | 6,777        | 5,993   |
| Depreciation and impairment of property, equipment and software                              |      | <b>264</b>            | 241     | 221     | 737          | 694     |
| Amortization and impairment of intangible assets   |      | <b>15</b>             | 16      | 16      | 47           | 53      |
| Total operating expenses   |      | <b>5,843</b>          | 6,089   | 6,117   | 17,971       | 17,993  |
| Operating profit / (loss) before tax   |      | <b>1,532</b>          | 1,553   | 1,161   | 4,868        | 4,244   |
| Tax expense / (benefit)  | 7    | <b>393</b>            | 369     | 256     | 1,172        | 937     |
| Net profit / (loss)  |      | <b>1,140</b>          | 1,184   | 905     | 3,696        | 3,307   |
| Net profit / (loss) attributable to preferred noteholders                                    |      |                       |         | 0       |              | 46      |
| Net profit / (loss) attributable to non-controlling interests                                |      | <b>3</b>              | 1       | 2       | 6            | 3       |
| <b>Net profit / (loss) attributable to shareholders</b>                                      |      | <b>1,137</b>          | 1,183   | 904     | 3,690        | 3,257   |

UBS AG interim consolidated financial statements (unaudited)

**Statement of comprehensive income**

| <i>CHF million</i>  | For the quarter ended |         | Year-to-date |         |         |
|---|-----------------------|---------|--------------|---------|---------|
|   | <b>30.9.18</b>        | 30.6.18 | 30.9.17      | 30.9.18 | 30.9.17 |
| <b>Comprehensive income attributable to shareholders</b>  |                       |         |              |         |         |
| <b>Net profit / (loss)</b>  | <b>1,137</b>          | 1,183   | 904          | 3,690   | 3,257   |
| <b>Other comprehensive income that may be reclassified to the income statement</b>  |                       |         |              |         |         |
| <b>Foreign currency translation</b>   |                       |         |              |         |         |
| Foreign currency translation movements related to net assets of foreign operations, before tax  | <b>(460)</b>          | 787     | 532          | (152)   | (1,035) |
| Effective portion of changes in fair value of hedging instruments designated as net investment hedges, before tax                         | <b>100</b>            | (55)    | (157)        | 140     | 44      |
| Foreign currency translation differences on foreign operations reclassified to the income statement                                       | <b>6</b>              | 15      | 2            | 21      | 27      |
| Effective portion of changes in fair value of hedging instruments designated in net investment hedge reclassified to the income statement | <b>0</b>              | 0       | 0            | 0       | 0       |
| Income tax relating to foreign currency translations, including the impact of net investment hedges                                       | <b>(34)</b>           | (1)     | 226          | (34)    | 229     |
| Subtotal foreign currency translation, net of tax   | <b>(389)</b>          | 747     | 602          | (25)    | (735)   |
| <b>Financial assets measured at fair value through other comprehensive income</b>   |                       |         |              |         |         |
| Net unrealized gains / (losses), before tax   | <b>(22)</b>           | (24)    | 57           | (117)   | 110     |
| Impairment charges reclassified to the income statement from equity   | <b>0</b>              | 0       | 0            | 0       | 13      |
| Realized gains reclassified to the income statement from equity   | <b>0</b>              | 0       | (13)         | 0       | (156)   |
| Realized losses reclassified to the income statement from equity  | <b>0</b>              | 0       | 2            | 0       | 9       |
| Income tax relating to net unrealized gains / (losses)  | <b>6</b>              | 6       | (22)         | 31      | (24)    |
| Subtotal financial assets measured at fair value through other comprehensive income, net of tax   | <b>(16)</b>           | (18)    | 24           | (86)    | (47)    |
| <b>Cash flow hedges of interest rate risk</b>   |                       |         |              |         |         |
| Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax                           | <b>(253)</b>          | (127)   | 60           | (822)   | 195     |
| Net (gains) / losses reclassified to the income statement from equity   | <b>(45)</b>           | (70)    | (209)        | (242)   | (640)   |
| Income tax relating to cash flow hedges   | <b>64</b>             | 37      | 30           | 215     | 93      |
| Subtotal cash flow hedges, net of tax   | <b>(234)</b>          | (161)   | (118)        | (849)   | (351)   |
| <b>Total other comprehensive income that may be reclassified to the income statement, net of tax</b>                                      | <b>(639)</b>          | 569     | 508          | (960)   | (1,133) |

**Other comprehensive income that will not be reclassified to the income statement****Defined benefit plans**

|   |             |     |     |     |     |
|---|-------------|-----|-----|-----|-----|
| Gains / (losses) on defined benefit plans, before tax | <b>(43)</b> | 250 | 135 | 173 | 299 |
| Income tax relating to defined benefit plans          | <b>2</b>    | 2   | (7) | 25  | (4) |
| Subtotal defined benefit plans, net of tax            | <b>(41)</b> | 252 | 128 | 197 | 295 |

**Own credit on financial liabilities designated at fair value**

|  |              |     |      |     |       |
|--|--------------|-----|------|-----|-------|
| Gains / (losses) from own credit on financial liabilities designated at fair value, before tax | <b>(284)</b> | 248 | (36) | 135 | (288) |
| Income tax relating to own credit on financial liabilities designated at fair value            | <b>2</b>     | 0   | 0    | 0   | (1)   |
| Subtotal own credit on financial liabilities designated at fair value, net of tax              | <b>(283)</b> | 248 | (36) | 135 | (290) |

**Total other comprehensive income that will not be reclassified to the income statement, net of tax**

|  |              |       |       |       |         |
|--|--------------|-------|-------|-------|---------|
| <b>Total other comprehensive income</b>                        | <b>(963)</b> | 1,068 | 600   | (627) | (1,128) |
| <b>Total comprehensive income attributable to shareholders</b> | <b>174</b>   | 2,251 | 1,504 | 3,063 | 2,129   |

**Statement of comprehensive income (continued)**

| <i>CHF million</i>  | For the quarter ended |         |         | Year-to-date |         |
|---|-----------------------|---------|---------|--------------|---------|
|   | <b>30.9.18</b>        | 30.6.18 | 30.9.17 | 30.9.18      | 30.9.17 |
| <b>Comprehensive income attributable to preferred noteholders</b>   |                       |         |         |              |         |
| <b>Net profit / (loss)</b>  | <b>0</b>              | 0       | 0       | 0            | 46      |
| <b>Other comprehensive income that will not be reclassified to the income statement</b>                   |                       |         |         |              |         |
| Foreign currency translation movements, before tax  | <b>0</b>              | 0       | 30      | 0            | 44      |
| Income tax relating to foreign currency translation movements   | <b>0</b>              | 0       | 0       | 0            | 0       |
| Subtotal foreign currency translation, net of tax   | <b>0</b>              | 0       | 30      | 0            | 44      |
| <b>Total other comprehensive income that will not be reclassified to the income statement, net of tax</b> | <b>0</b>              | 0       | 30      | 0            | 44      |
| <b>Total comprehensive income attributable to preferred noteholders</b>                                   | <b>0</b>              | 0       | 30      | 0            | 90      |
| <b>Comprehensive income attributable to non-controlling interests</b>                                     |                       |         |         |              |         |
| <b>Net profit / (loss)</b>  | <b>3</b>              | 1       | 2       | 6            | 3       |
| <b>Other comprehensive income that will not be reclassified to the income statement</b>                   |                       |         |         |              |         |
| Foreign currency translation movements, before tax  | <b>0</b>              | (2)     | 0       | (2)          | (1)     |
| Income tax relating to foreign currency translation movements   | <b>0</b>              | 0       | 0       | 0            | 0       |
| Subtotal foreign currency translation, net of tax   | <b>0</b>              | (2)     | 0       | (2)          | (1)     |
| <b>Total other comprehensive income that will not be reclassified to the income statement, net of tax</b> | <b>0</b>              | (2)     | 0       | (2)          | (1)     |
| <b>Total comprehensive income attributable to non-controlling interests</b>                               | <b>3</b>              | (1)     | 1       | 4            | 2       |

|   |              |       |       |       |         |
|---|--------------|-------|-------|-------|---------|
| <b>Total comprehensive income</b>   |              |       |       |       |         |
| <b>Net profit / (loss)</b>  | <b>1,140</b> | 1,184 | 905   | 3,696 | 3,307   |
| <b>Other comprehensive income</b>   | <b>(963)</b> | 1,066 | 630   | (629) | (1,085) |
| <i>of which: other comprehensive income that may be reclassified to the income statement</i>      | <b>(639)</b> | 569   | 508   | (960) | (1,133) |
| <i>of which: other comprehensive income that will not be reclassified to the income statement</i> | <b>(324)</b> | 497   | 121   | 330   | 48      |
| <b>Total comprehensive income</b>   | <b>177</b>   | 2,250 | 1,535 | 3,066 | 2,221   |

## UBS AG interim consolidated financial statements (unaudited)

**Balance sheet**

CHF million

|   | Note  | 30.9.18        | 30.6.18 | 31.12.17 |
|---|-------|----------------|---------|----------|
| <b>Assets</b>   |       |                |         |          |
| Cash and balances at central banks  |       | 92,632         | 102,262 | 87,775   |
| Loans and advances to banks   |       | 15,284         | 15,518  | 13,693   |
| Receivables from securities financing transactions  |       | 81,951         | 76,450  | 89,633   |
| Cash collateral receivables on derivative instruments   | 10    | 21,414         | 24,937  | 23,434   |
| Loans and advances to customers   | 8     | 320,236        | 320,569 | 320,659  |
| Other financial assets measured at amortized cost   | 11    | 20,682         | 21,072  | 36,935   |
| <b>Total financial assets measured at amortized cost</b>                                      |       | <b>552,199</b> | 560,808 | 572,129  |
| Financial assets at fair value held for trading   | 9     | 121,004        | 112,258 | 126,244  |
| <i>of which: assets pledged as collateral that may be sold or repledged by counterparties</i> |       | <b>37,019</b>  | 36,580  | 35,363   |
| Derivative financial instruments  | 9, 10 | 114,248        | 121,605 | 118,229  |
| Brokerage receivables   | 9     | 20,235         | 18,415  |          |
| Financial assets at fair value not held for trading   | 9     | 86,852         | 92,875  | 58,556   |
| <b>Total financial assets measured at fair value through profit or loss</b>                   |       | <b>342,339</b> | 345,153 | 303,028  |
| <b>Financial assets measured at fair value through other comprehensive income</b>             | 9     | <b>6,618</b>   | 6,941   | 8,665    |
| Investments in associates   |       | 982            | 1,026   | 1,018    |
| Property, equipment and software  |       | 8,181          | 8,216   | 7,985    |
| Goodwill and intangible assets  |       | 6,316          | 6,391   | 6,398    |
| Deferred tax assets   |       | 9,584          | 9,804   | 9,783    |
| Other non-financial assets  | 11    | 6,873          | 6,956   | 7,358    |
| <b>Total assets</b>   |       | <b>933,091</b> | 945,296 | 916,363  |

**Balance sheet (continued)**

CHF million

|  | Note  | 30.9.18        | 30.6.18 | 31.12.17 |
|--|-------|----------------|---------|----------|
| <b>Liabilities</b>   |       |                |         |          |
| Amounts due to banks   |       | 10,109         | 10,242  | 7,533    |
| Payables from securities financing transactions                                  |       | 10,816         | 10,130  | 17,044   |
| Cash collateral payables on derivative instruments                               | 10    | 27,635         | 31,843  | 30,247   |
| Customer deposits  |       | 404,875        | 407,171 | 412,392  |
| Funding from UBS Group AG and its subsidiaries                                   |       | 38,172         | 38,771  | 34,749   |
| Debt issued measured at amortized cost   | 13    | 96,012         | 98,929  | 104,749  |
| Other financial liabilities measured at amortized cost                           | 11    | 6,836          | 7,187   | 37,133   |
| <b>Total financial liabilities measured at amortized cost</b>                    |       | <b>594,454</b> | 604,274 | 643,847  |
| Financial liabilities at fair value held for trading                             | 9     | 32,030         | 31,416  | 30,463   |
| Derivative financial instruments   | 9, 10 | 113,553        | 119,224 | 116,134  |
| Brokerage payables designated at fair value                                      | 9     | 38,268         | 37,904  |          |
| Debt issued designated at fair value   | 9, 12 | 61,631         | 56,849  | 49,502   |
| Other financial liabilities designated at fair value                             | 9, 11 | 34,605         | 37,342  | 16,223   |
| <b>Total financial liabilities measured at fair value through profit or loss</b> |       | <b>280,087</b> | 282,736 | 212,323  |
| Provisions   | 14    | 2,930          | 3,084   | 3,084    |
| Other non-financial liabilities  | 11    | 5,446          | 5,181   | 6,335    |
| <b>Total liabilities</b>   |       | <b>882,917</b> | 895,275 | 865,588  |
| <b>Equity</b>  |       |                |         |          |
| Share capital  |       | 386            | 386     | 386      |
| Share premium  |       | 26,986         | 26,984  | 26,966   |
| Retained earnings  |       | 29,531         | 28,718  | 29,102   |
| Other comprehensive income recognized directly in equity, net of tax             |       | (6,766)        | (6,127) | (5,736)  |
| <b>Equity attributable to shareholders</b>                                       |       | <b>50,136</b>  | 49,961  | 50,718   |
| Equity attributable to non-controlling interests                                 |       | 38             | 60      | 57       |
| <b>Total equity</b>  |       | <b>50,174</b>  | 50,021  | 50,775   |
| <b>Total liabilities and equity</b>  |       | <b>933,091</b> | 945,296 | 916,363  |

## UBS AG interim consolidated financial statements (unaudited)

**Statement of changes in equity**

|   | Share<br>capital | Share<br>premium | Retained<br>earnings | Other<br>comprehensive<br>income<br>recognized<br>directly in equity,<br>net of tax <sup>1</sup> |
|---|------------------|------------------|----------------------|--|
| <i>CHF million</i>  |                  |                  |                      |  |
| <b>Balance as of 1 January 2017</b>   | <b>386</b>       | <b>29,505</b>    | <b>28,265</b>        | <b>(4,494)</b>   |
| Issuance of share capital   |                  |                  |                      |  |
| Premium on shares issued and warrants exercised   |                  | 6                |                      |  |
| Tax (expense) / benefit   |                  | 12               |                      |  |
| Dividends   |                  | (2,250)          |                      |  |
| Preferred notes   |                  |                  |                      |  |
| New consolidations / (deconsolidations) and other increases / (decreases)   |                  | (313)            |                      |  |
| Total comprehensive income for the period   |                  |                  | 3,262                | (1,133)  |
| <i>of which: net profit / (loss)</i>  |                  |                  | 3,257                |  |
| <i>of which: other comprehensive income (OCI) that may be reclassified to the income statement, net of tax</i>        |                  |                  |                      | (1,133)  |
| <i>of which: OCI that will not be reclassified to the income statement, net of tax – defined benefit plans</i>        |                  |                  | 295                  |  |
| <i>of which: OCI that will not be reclassified to the income statement, net of tax – own credit</i>                   |                  |                  | (290)                |  |
| <i>of which: OCI that will not be reclassified to the income statement, net of tax – foreign currency translation</i> |                  |                  |                      |  |
| <b>Balance as of 30 September 2017</b>  | <b>386</b>       | <b>26,960</b>    | <b>31,527</b>        | <b>(5,627)</b>   |
| <b>Balance as of 1 January 2018 before the adoption of IFRS 9 and IFRS 15</b>   | <b>386</b>       | <b>26,966</b>    | <b>29,102</b>        | <b>(5,736)</b>   |
| Effect of adoption of IFRS 9  |                  |                  | (505)                | (72)   |
| Effect of adoption of IFRS 15   |                  |                  | (24)                 |  |
| <b>Balance as of 1 January 2018 after the adoption of IFRS 9 and IFRS 15</b>  | <b>386</b>       | <b>26,966</b>    | <b>28,573</b>        | <b>(5,808)</b>   |



|   |            |               |               |                |
|---|------------|---------------|---------------|----------------|
| Issuance of share capital   |            |               |               |                |
| Premium on shares issued and warrants exercised   | 22         |               |               |                |
| Tax (expense) / benefit   | 6          |               |               |                |
| Dividends   |            | (3,065)       |               |                |
| New consolidations / (deconsolidations) and other increases / (decreases)   | (8)        |               |               |                |
| Total comprehensive income for the period   |            | 4,022         |               | (960)          |
| <i>of which: net profit / (loss)</i>  |            | 3,690         |               |                |
| <i>of which: other comprehensive income (OCI) that may be reclassified to the income statement, net of tax</i>        |            |               |               | (960)          |
| <i>of which: OCI that will not be reclassified to the income statement, net of tax – defined benefit plans</i>        |            | 197           |               |                |
| <i>of which: OCI that will not be reclassified to the income statement, net of tax – own credit</i>                   |            | 135           |               |                |
| <i>of which: OCI that will not be reclassified to the income statement, net of tax – foreign currency translation</i> |            |               |               |                |
| <b>Balance as of 30 September 2018</b>  | <b>386</b> | <b>26,986</b> | <b>29,531</b> | <b>(6,766)</b> |

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

|                    |                    | <i>of which:</i> |               |              |             |           |                 |               |
|--------------------|--------------------|------------------|---------------|--------------|-------------|-----------|-----------------|---------------|
|                    |                    | Total equity     |               |              |             |           |                 |               |
| <i>of which:</i>   | <i>financial</i>   | <i>of which:</i> |               | attributable |             | Preferred | Non-controlling | Total         |
| <i>foreign</i>     | <i>assets</i>      | <i>cash flow</i> | to            |              | noteholders | interests |                 | equity        |
| <i>currency</i>    | <i>measured at</i> | <i>hedges</i>    | shareholders  | shareholders |             |           |                 |               |
| <i>translation</i> | <i>fair value</i>  |                  |               |              |             |           |                 |               |
| <i>(5,564)</i>     | <i>through OCI</i> | <i>972</i>       | <i>53,662</i> |              | <b>642</b>  | <b>40</b> |                 | <b>54,343</b> |
|                    | 98                 |                  | 0             |              |             |           |                 | 0             |
|                    |                    |                  | 6             |              |             |           |                 | 6             |
|                    |                    |                  | 12            |              |             |           |                 | 12            |
|                    |                    |                  | (2,250)       |              | (46)        | (4)       |                 | (2,300)       |
|                    |                    |                  | 0             |              | 1           |           |                 | 1             |
|                    |                    |                  | (313)         |              |             | 19        |                 | (294)         |
| (735)              | (47)               | (351)            | 2,129         |              | 90          | 2         |                 | 2,221         |
|                    |                    |                  | 3,257         |              | 46          | 3         |                 | 3,307         |
| (735)              | (47)               | (351)            | (1,133)       |              |             |           |                 | (1,133)       |
|                    |                    |                  | 295           |              |             |           |                 | 295           |
|                    |                    |                  | (290)         |              |             |           |                 | (290)         |
|                    |                    |                  | 0             |              | 44          | (1)       |                 | 43            |
| (6,299)            | 51                 | 621              | 53,246        |              | <b>687</b>  | <b>56</b> |                 | <b>53,989</b> |
| <b>(6,099)</b>     | <b>12</b>          | <b>351</b>       | <b>50,718</b> |              |             | <b>57</b> |                 | <b>50,775</b> |
|                    | <b>(72)</b>        |                  | <b>(577)</b>  |              |             |           |                 | <b>(577)</b>  |
|                    |                    |                  | <b>(24)</b>   |              |             |           |                 | <b>(24)</b>   |
| <b>(6,099)</b>     | <b>(60)</b>        | <b>351</b>       | <b>50,117</b> |              |             | <b>57</b> |                 | <b>50,174</b> |
|                    |                    |                  | 0             |              |             |           |                 | 0             |
|                    |                    |                  | 22            |              |             |           |                 | 22            |
|                    |                    |                  | 6             |              |             |           |                 | 6             |
|                    |                    |                  | (3,065)       |              |             | (7)       |                 | (3,072)       |
|                    |                    |                  | (8)           |              |             | (16)      |                 | (24)          |
| (25)               | (86)               | (849)            | 3,063         |              |             | 4         |                 | 3,066         |
|                    |                    |                  | 3,690         |              |             | 6         |                 | 3,696         |
| (25)               | (86)               | (849)            | (960)         |              |             |           |                 | (960)         |
|                    |                    |                  | 197           |              |             |           |                 | 197           |
|                    |                    |                  | 135           |              |             |           |                 | 135           |
|                    |                    |                  | 0             |              |             | (2)       |                 | (2)           |
| (6,124)            | (144)              | (498)            | 50,136        |              |             | <b>38</b> |                 | <b>50,174</b> |

UBS AG interim consolidated financial statements (unaudited)

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

|   | Year-to-date   |          |
|---|----------------|----------|
| <i>CHF million</i>  | <b>30.9.18</b> | 30.9.17  |
| <b>Cash flow from / (used in) operating activities</b>  |                |          |
| Net profit / (loss)   | <b>3,696</b>   | 3,307    |
| <b>Non-cash items included in net profit and other adjustments:</b>                                   |                |          |
| Depreciation and impairment of property, equipment and software                                       | <b>737</b>     | 694      |
| Amortization and impairment of intangible assets  | <b>47</b>      | 53       |
| Credit loss expense / (recovery)  | <b>62</b>      | 39       |
| Share of net profits of associates / joint ventures and impairment of associates                      | <b>(46)</b>    | (49)     |
| Deferred tax expense / (benefit)  | <b>602</b>     | 296      |
| Net loss / (gain) from investing activities   | <b>(16)</b>    | 85       |
| Net loss / (gain) from financing activities   | <b>2,636</b>   | 583      |
| Other net adjustments   | <b>(383)</b>   | (342)    |
| <b>Net change in operating assets and liabilities:</b>  |                |          |
| Loans and advances to banks / amounts due to banks  | <b>2,359</b>   | 27       |
| Securities financing transactions   | <b>887</b>     | (12,944) |
| Cash collateral on derivative instruments   | <b>(340)</b>   | (2,199)  |
| Loans and advances to customers   | <b>(8,356)</b> | (11,536) |
| Customer deposits   | <b>(1,252)</b> | (17,054) |
| Financial assets and liabilities at FV held for trading and derivative financial instruments          | <b>(7,037)</b> | (7,142)  |
| Brokerage receivables and payables  | <b>7,385</b>   |          |
| Financial assets at fair value not held for trading, other financial assets and liabilities           | <b>6,765</b>   | 9,935    |
| Provisions, other non-financial assets and liabilities  | <b>(108)</b>   | (1,293)  |
| Income taxes paid, net of refunds   | <b>(704)</b>   | (857)    |
| <b>Net cash flow from / (used in) operating activities</b>  | <b>6,932</b>   | (38,397) |
| <b>Cash flow from / (used in) investing activities</b>  |                |          |
| Purchase of subsidiaries, associates and intangible assets  | <b>(16)</b>    | (100)    |
| Disposal of subsidiaries, associates and intangible assets <sup>2</sup>                               | <b>126</b>     | 148      |
| Purchase of property, equipment and software  | <b>(1,011)</b> | (1,064)  |
| Disposal of property, equipment and software  | <b>103</b>     | 27       |
| Purchase of financial assets measured at fair value through other comprehensive income                | <b>(1,038)</b> | (7,829)  |
| Disposal and redemption of financial assets measured at fair value through other comprehensive income | <b>1,049</b>   | 10,559   |
| Net (purchase) / redemption of debt securities measured at amortized cost                             | <b>(2,084)</b> |          |
| Net (purchase) / redemption of financial assets held to maturity                                      |                | 11       |
| <b>Net cash flow from / (used in) investing activities</b>  | <b>(2,872)</b> | 1,752    |

Table continues on the next page.



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

Table continued from previous page.

| <i>CHF million</i>   | Year-to-date<br><b>30.9.18</b> | 30.9.17  |
|--|--------------------------------|----------|
| <b>Cash flow from / (used in) financing activities</b>                                   |                                |          |
| Net short-term debt issued / (repaid)  | <b>(7,302)</b>                 | 21,855   |
| Distributions paid on UBS shares   | <b>(3,065)</b>                 | (2,250)  |
| Issuance of long-term debt, including debt issued designated at fair value <sup>3</sup>  | <b>48,932</b>                  | 40,066   |
| Repayment of long-term debt, including debt issued designated at fair value <sup>3</sup> | <b>(35,163)</b>                | (32,346) |
| Dividends paid and repayments of preferred notes   | <b>0</b>                       | (45)     |
| Net changes in non-controlling interests   | <b>14</b>                      | (5)      |
| <b>Net cash flow from / (used in) financing activities</b>                               | <b>3,416</b>                   | 27,275   |
| <b>Total cash flow</b>   |                                |          |
| <b>Cash and cash equivalents at the beginning of the period</b>                          | <b>102,154</b>                 | 121,107  |
| Net cash flow from / (used in) operating, investing and financing activities             | <b>7,476</b>                   | (9,370)  |
| Effects of exchange rate differences on cash and cash equivalents                        | <b>(933)</b>                   | (324)    |
| <b>Cash and cash equivalents at the end of the period<sup>4</sup></b>                    | <b>108,697</b>                 | 111,413  |
| <i>of which: cash and balances at central banks</i>                                      | <b>92,518</b>                  | 94,563   |
| <i>of which: loans and advances to banks</i>   | <b>13,790</b>                  | 13,753   |
| <i>of which: money market paper<sup>5</sup></i>  | <b>2,389</b>                   | 3,097    |

**Additional information**

Net cash flow from / (used in) operating activities includes:

|  |               |       |
|--|---------------|-------|
| Interest received in cash  | <b>10,269</b> | 9,132 |
| Interest paid in cash  | <b>6,810</b>  | 5,127 |
| Dividends on equity investments, investment funds and associates received in cash <sup>6</sup> | <b>1,884</b>  | 1,465 |

<sup>1</sup> Upon adoption of IFRS 9 on 1 January 2018, cash flows from certain financial instruments have been reclassified from investing to operating activities. Refer to Note 18 for more information. <sup>2</sup> Includes dividends received from associates. <sup>3</sup> Includes funding from UBS Group AG and its subsidiaries. <sup>4</sup> CHF 3,054 million and CHF 2,559 million of cash and cash equivalents (mainly reflected in Loans and advances to banks) were restricted as of 30 September 2018 and 30 September 2017, respectively. Refer to "Note 23 Restricted and transferred financial assets" in the "Consolidated financial statements" section in the Annual Report 2017 for more information. <sup>5</sup> Money market paper is included in the balance sheet under Financial assets at fair value held for trading, Financial assets measured at fair value

through other comprehensive income, Financial assets at fair value not held for trading and Other financial assets measured at amortized cost. 6 Includes dividends received from associates reported within Cash flow from / (used in) investing activities.

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

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

## **Note 1 Basis of accounting**

### **1.1 Basis of preparation**

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

In preparing these interim Financial Statements, the same accounting policies and methods of computation have been applied as in the UBS AG consolidated annual Financial Statements for the period ended 31 December 2017, except for the changes described in this note, in Note 18 of this report and in “Note 1 Basis of accounting” in the “Consolidated financial statements” section of the first and second quarter 2018 reports. These interim Financial Statements are unaudited and should be read in conjunction with UBS AG’s audited consolidated Financial Statements included in the Annual Report 2017. In the opinion of management, all necessary adjustments were made for a fair presentation of UBS AG’s financial position, results of operations and cash flows.

Preparation of these interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosures of contingent assets and liabilities. These estimates and assumptions are based on the best available information. Actual results in the future could differ from such estimates and such differences may be material to the Financial Statements. Revisions to estimates, based on regular reviews, are recognized in the period in which they occur. For more information on areas of estimation uncertainty considered to require critical judgment, refer to “Note 1a) Significant accounting policies” in the “Consolidated financial statements” section of the Annual Report 2017 and in Note 18.1 of this report.

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

#### **IFRS 9, *Financial Instruments***

As disclosed in the UBS AG first and second quarter 2018 reports, effective 1 January 2018, UBS AG adopted IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement* and substantially changes accounting and financial reporting in three key areas: classification and measurement of financial assets, impairment and hedge accounting. In addition, UBS AG early adopted the Amendment to IFRS 9, *Prepayment Features with Negative Compensation*, issued in October 2017, which allows UBS AG to continue to apply amortized cost accounting to Swiss private mortgages and corporate loans

that provide for two-way compensation if a prepayment occurs. UBS AG continues to apply hedge accounting under IAS 39 as permitted by IFRS 9 and early adopted the own credit requirements of IFRS 9 during the first quarter of 2016.

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

**1** Following expectations set out in the Annual Report 2017 of UBS Group AG and UBS AG and as disclosed in the third quarter 2018 report of UBS Group AG, the functional currency of UBS AG's Head Office in Switzerland has changed from Swiss francs to US dollars (USD), and the functional currency of UBS AG's London Branch operations has changed from British pounds to USD effective 1 October 2018 on a prospective basis, in light of cumulative changes in UBS's legal structure, business activities and evolving changes to its structural currency management strategy. In line with these changes, the presentation currency of UBS AG's consolidated financial statements has changed from Swiss francs to USD. Refer to Note 16 for more information on events after the reporting period.



**Note 1 Basis of accounting (continued)**

The calculation of ECL requires management to apply judgment and make estimates and assumptions that involve significant uncertainty at the time they are made and can have a material effect on the timing and amount of ECL to be recognized. These judgments, estimates and assumptions are an inherent part of the ECL calculation which includes probability of default (PD), loss given default (LGD) and exposure at default (EAD) models, the determination of a significant increase in credit risk, the selection of appropriate scenarios and macroeconomic factors and the ECL measurement period. These inputs are based on the best available information and are subject to frequent re-assessment.

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 18.1 of this report, alongside further detail on areas of critical accounting estimates and judgments. The detailed effects of the adoption of IFRS 9 on 1 January 2018 are presented in Note 18.2.

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

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

As disclosed in the UBS AG first quarter and second quarter 2018 reports, effective from 1 January 2018, UBS AG adopted IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18, *Revenue* and establishes principles for revenue recognition that apply to all contracts with customers except those relating to financial instruments, leases and insurance contracts and requires an entity to recognize revenue as performance obligations are satisfied.

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

As permitted by the transitional provisions of IFRS 15, UBS AG elected not to restate comparative figures. Instead, the cumulative effect of initially applying the standard was recognized as an adjustment to the opening balance of retained earnings. A transition adjustment of CHF 27 million on a pre-tax basis and CHF 24 million net of tax was posted to retained earnings to reverse income recognized prior to 1 January 2018 under IAS 18 that

must be deferred under IFRS 15 either due to the variable consideration constraint (asset management performance fees of CHF 16 million) or because UBS AG does not have an enforceable right to a specified amount of consideration (commission-sharing agreements for research services of CHF 11 million).

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

→ **Refer to Note 3 for more information**

### **1.3 New accounting standards to be adopted in 2019**

#### *IFRS 16, Leases*

UBS AG will adopt IFRS 16, *Leases*, on 1 January 2019. IFRS 16 will fundamentally change how UBS accounts for operating leases when UBS AG is acting as a lessee, with a requirement to record a lease obligation and a right of use asset on the balance sheet. Upon adoption of IFRS 16, assets and liabilities are expected to increase by approximately CHF 4 billion with no material impact to UBS AG's equity. UBS AG has made significant progress during 2018 in developing the core technology build, reporting impacts and governance frameworks, which it intends to finalize in the fourth quarter of 2018.

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

**Note 2 Segment reporting**

UBS AG's businesses are organized globally into four business divisions: Global Wealth Management, Personal & Corporate Banking, Asset Management and the Investment Bank, all of which are supported by Corporate Center. The four business divisions qualify as reportable segments for the purpose of segment reporting and, together with Corporate Center and its units, reflect the management structure of UBS AG. Corporate Center – Non-core and Legacy Portfolio is managed and reported as a separate reportable segment within Corporate Center. Refer to "Note 1a Significant accounting policies" item 2 and "Note 2 Segment reporting" in the "Consolidated financial statements" section of the Annual Report 2017 for more information on UBS AG's reporting segments.

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

|  | Global<br>Wealth<br>Management | Personal &<br>Corporate<br>Banking | Asset<br>Management | Investment<br>Bank | Corporate Center<br>Services | Non-core<br>and<br>Legacy<br>Group ALM<br>Portfolio |      |
|--|--------------------------------|------------------------------------|---------------------|--------------------|------------------------------|---|------|
| <i>CHF million</i>   |                                |                                    |                     |                    |                              |   |      |
| <b>For the nine<br/>months<br/>ended 30<br/>September<br/>2018<sup>1</sup></b> |                                |                                    |                     |                    |                              |   |      |
| Net interest<br>income   | 3,042                          | 1,504                              | (22)                | 758                | (288)                        | (670)   | 21   |
| Non-interest<br>income   | 9,269                          | 1,347                              | 1,360               | 5,970              | 428                          | (63)  | 246  |
| Allocations<br>from CC –<br>Group ALM  | 89                             | 35                                 | 10                  | (304)              | 32                           | 217   | (78) |
| Income   | 12,399                         | 2,885                              | 1,348               | 6,424              | 172                          | (516)   | 189  |
| Credit loss<br>(expense) /<br>recovery   | (4)                            | (38)                               | 0                   | (20)               | 0                            | 0   | (2)  |
| Total<br>operating<br>income   | 12,396                         | 2,847                              | 1,348               | 6,404              | 172                          | (515)   | 187  |
| Personnel<br>expenses  | 5,629                          | 598                                | 521                 | 2,325              | 1,279                        | 29  | 28   |

|   |                |                |               |                |               |                |               |
|---|----------------|----------------|---------------|----------------|---------------|----------------|---------------|
| General and administrative expenses                             | 915            | 174            | 144           | 434            | 5,001         | 29             | 82            |
| Services (to) / from CC and other BDs                           | 2,748          | 865            | 354           | 2,042          | (6,142)       | 2              | 132           |
| <i>of which: services from CC – Services</i>                    | 2,671          | 920            | 385           | 1,984          | (6,197)       | 124            | 114           |
| Depreciation and impairment of property, equipment and software | 3              | 10             | 1             | 6              | 717           | 0              | 0             |
| Amortization and impairment of intangible assets                | 35             | 0              | 1             | 10             | 1             | 0              | 0             |
| Total operating expenses  | 9,329          | 1,646          | 1,021         | 4,817          | 856           | 59             | 242           |
| <b>Operating profit / (loss) before tax</b>                     | <b>3,067</b>   | <b>1,201</b>   | <b>327</b>    | <b>1,587</b>   | <b>(685)</b>  | <b>(575)</b>   | <b>(55)</b>   |
| Tax expense / (benefit)   |                |                |               |                |               |                |               |
| <b>Net profit / (loss)</b>                                      |                |                |               |                |               |                |               |
| <b>As of 30 September 2018</b>                                  |                |                |               |                |               |                |               |
| <b>Total assets</b>   | <b>195,996</b> | <b>136,125</b> | <b>26,116</b> | <b>269,777</b> | <b>19,135</b> | <b>251,787</b> | <b>34,155</b> |
| <b>For the nine months ended 30 September 2017<sup>1</sup></b>  |                |                |               |                |               |                |               |
| Net interest income   | 2,694          | 1,427          | (23)          | 855            | (265)         | 112            | 22            |
| Non-interest income   | 8,940          | 1,320          | 1,432         | 5,344          | 329           | 39             | 52            |
| Allocations from CC – Group ALM                                 | 275            | 139            | 14            | (264)          | 89            | (199)          | (54)          |
| Income  | 11,909         | 2,886          | 1,422         | 5,935          | 153           | (50)           | 19            |
| Credit loss (expense) /   | (3)            | (23)           | 0             | (10)           | 0             | 0              | (3)           |

|   |              |              |            |              |                |             |              |  |
|---|--------------|--------------|------------|--------------|----------------|-------------|--------------|--|
| recovery  |              |              |            |              |                |             |              |  |
| Total operating income  | 11,906       | 2,864        | 1,422      | 5,925        | 153            | (50)        | 16           |  |
| Personnel expenses  | 5,635        | 646          | 542        | 2,306        | 2,064          | 25          | 34           |  |
| General and administrative expenses                             | 917          | 205          | 162        | 447          | 4,267          | 14          | (19)         |  |
| Services (to) / from CC and other BDs                           | 2,641        | 817          | 374        | 2,008        | (5,997)        | (10)        | 167          |  |
| <i>of which:</i>  |              |              |            |              |                |             |              |  |
| <i>services from CC – Services</i>                              | <i>2,567</i> | <i>885</i>   | <i>402</i> | <i>1,940</i> | <i>(6,038)</i> | <i>100</i>  | <i>144</i>   |  |
| Depreciation and impairment of property, equipment and software | 3            | 9            | 1          | 7            | 674            | 0           | 0            |  |
| Amortization and impairment of intangible assets                | 34           | 0            | 3          | 9            | 6              | 0           | 0            |  |
| Total operating expenses  | 9,230        | 1,677        | 1,083      | 4,777        | 1,015          | 29          | 183          |  |
| <b>Operating profit / (loss) before tax</b>                     | <b>2,676</b> | <b>1,186</b> | <b>340</b> | <b>1,148</b> | <b>(861)</b>   | <b>(79)</b> | <b>(167)</b> |  |
| Tax expense / (benefit)   |              |              |            |              |                |             |              |  |
| <b>Net profit / (loss)</b>                                      |              |              |            |              |                |             |              |  |

**As of 31  
December  
2017**

**Total assets**      **190,074**    **135,587**      **14,270**    **263,046**    **19,447**    **247,739**    **46,200**    **9**

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

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

| <i>CHF million</i>                                 | For the quarter ended |         |         | Year-to-date |         |
|--|-----------------------|---------|---------|--------------|---------|
|  | <b>30.9.18</b>        | 30.6.18 | 30.9.17 | 30.9.18      | 30.9.17 |
| Underwriting fees                                  | <b>206</b>            | 189     | 244     | 637          | 814     |
| <i>of which: equity underwriting fees</i>          | <b>96</b>             | 88      | 149     | 302          | 459     |
| <i>of which: debt underwriting fees</i>            | <b>111</b>            | 101     | 95      | 335          | 355     |
| M&A and corporate finance fees                     | <b>256</b>            | 178     | 174     | 627          | 521     |
| Brokerage fees                                     | <b>770</b>            | 877     | 871     | 2,615        | 2,839   |
| Investment fund fees                               | <b>1,198</b>          | 1,213   | 1,052   | 3,618        | 3,159   |
| Portfolio management and related services          | <b>1,911</b>          | 1,902   | 1,890   | 5,649        | 5,536   |
| Other  | <b>439</b>            | 440     | 461     | 1,332        | 1,377   |
| <b>Total fee and commission income<sup>2</sup></b> | <b>4,779</b>          | 4,799   | 4,694   | 14,478       | 14,246  |
| <i>of which: recurring</i>                         | <b>3,176</b>          | 3,161   |         | 9,408        |         |
| <i>of which: transaction-based</i>                 | <b>1,585</b>          | 1,617   |         | 5,012        |         |
| <i>of which: performance-based</i>                 | <b>18</b>             | 22      |         | 58           |         |
| Brokerage fees paid                                | <b>62</b>             | 75      | 162     | 221          | 506     |
| Other  | <b>340</b>            | 341     | 280     | 1,005        | 821     |
| <b>Total fee and commission expense</b>            | <b>401</b>            | 416     | 442     | 1,226        | 1,327   |
| <b>Net fee and commission income</b>               | <b>4,378</b>          | 4,383   | 4,252   | 13,252       | 12,920  |
| <i>of which: net brokerage fees</i>                | <b>709</b>            | 802     | 709     | 2,394        | 2,333   |

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 September 2017, CHF 68 million was reclassified from Underwriting fees to Brokerage fees and CHF 265 million was reclassified from Portfolio management and related services to Investment fund fees. For the first nine months of 2017, CHF 233 million was reclassified from total Underwriting fees to Brokerage fees and CHF 764 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 third quarter of 2018 of CHF 2,783 million for Global Wealth Management (second quarter of 2018: CHF 2,832 million), CHF 306 million for Personal & Corporate Banking (second quarter of 2018: CHF 301 million), CHF 792 million for Asset Management (second quarter of 2018: CHF 801 million), CHF 891 million for the Investment Bank (second quarter of 2018: CHF 863 million) and CHF 8 million for Corporate Center (second quarter of 2018: CHF 3 million).

**Note 4 Other income**

| <i>CHF million</i>  | For the quarter ended |         |         | Year-to-date     |         |
|---|-----------------------|---------|---------|------------------|---------|
|   | <b>30.9.18</b>        | 30.6.18 | 30.9.17 | 30.9.18          | 30.9.17 |
| <b>Associates, joint ventures and subsidiaries</b>                                      |                       |         |         |                  |         |
| Net gains / (losses) from disposals of subsidiaries <sup>1</sup>                        | <b>19</b>             | (10)    | 3       | 8                | (19)    |
| Share of net profits of associates and joint ventures                                   | <b>16</b>             | 15      | 20      | 46               | 56      |
| Impairments related to associates   |                       |         | (7)     |                  | (7)     |
| <b>Total</b>  | <b>35</b>             | 5       | 17      | 54               | 30      |
| <b>Financial assets measured at fair value through other comprehensive income</b>       |                       |         |         |                  |         |
| Net gains / (losses) from disposals   | <b>0</b>              | 0       | 11      | 0                | 147     |
| Impairments   | <b>0</b>              | 0       | 0       | 0                | (13)    |
| <b>Total</b>  | <b>0</b>              | 0       | 10      | 0                | 133     |
| Net gains / (losses) from disposals of financial assets measured at amortized cost      | <b>0</b>              | (1)     | 2       | 0                | 17      |
| Net income from properties (excluding net gains / (losses) from disposals) <sup>2</sup> | <b>6</b>              | 6       | 6       | 18               | 18      |
| Net gains / (losses) from disposals of properties held for sale                         | <b>30</b>             | 0       | 0       | 30               | (1)     |
| Income from shared services provided to UBS Group AG or its subsidiaries <sup>3</sup>   | <b>114</b>            | 105     | 124     | 339 <sup>4</sup> | 259     |
| Other   | <b>27</b>             | 22      | 41      | 72               | 88      |
| <b>Total other income</b>   | <b>212</b>            | 137     | 200     | 513              | 544     |

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. 3 Relates to subsidiaries not in the UBS AG scope of consolidation. 4 The increase compared with the first nine months of 2017 was mainly due to the transfer of shared services functions in Switzerland and the UK from UBS AG to UBS Business Solutions AG in the second quarter and fourth quarter of 2017, respectively. Refer to the Annual Report 2017 for more information.

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

**Note 5 Personnel expenses**

| <i>CHF million</i>                                   | For the quarter ended |         |         | Year-to-date        |         |
|--|-----------------------|---------|---------|---------------------|---------|
|  | <b>30.9.18</b>        | 30.6.18 | 30.9.17 | 30.9.18             | 30.9.17 |
| Salaries and variable compensation                   | <b>1,918</b>          | 2,084   | 2,103   | 6,214               | 6,661   |
| Financial advisor variable compensation <sup>1</sup> | <b>996</b>            | 996     | 976     | 2,966               | 2,956   |
| Contractors  | <b>42</b>             | 50      | 83      | 133                 | 247     |
| Social security                                      | <b>145</b>            | 156     | 183     | 491                 | 547     |
| Pension and other post-employment benefit plans      | <b>98</b>             | 119     | 132     | 238 <sup>2</sup>    | 464     |
| Other personnel expenses                             | <b>131</b>            | 118     | 122     | 370                 | 377     |
| <b>Total personnel expenses</b>                      | <b>3,331</b>          | 3,524   | 3,598   | 10,411 <sup>3</sup> | 11,253  |

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

**Note 6 General and administrative expenses**

| <i>CHF million</i>                             | For the quarter ended |         |         | Year-to-date       |         |
|--|-----------------------|---------|---------|--------------------|---------|
|  | <b>30.9.18</b>        | 30.6.18 | 30.9.17 | 30.9.18            | 30.9.17 |
| Occupancy                                      | <b>211</b>            | 207     | 204     | 623                | 628     |
| Rent and maintenance of IT and other equipment | <b>75</b>             | 77      | 91      | 228                | 331     |
| Communication and market data services         | <b>129</b>            | 123     | 129     | 376                | 409     |
| Administration                                 | <b>1,275</b>          | 1,217   | 882     | 3,784              | 2,109   |
|  | <b>1,156</b>          | 1,151   | 733     | 3,461 <sup>2</sup> | 1,766   |



*of which: shared services costs charged by UBS Group AG or its subsidiaries<sup>1</sup>*

|   |              |       |       |       |       |
|---|--------------|-------|-------|-------|-------|
| <i>of which: UK bank levy<sup>3</sup></i>               | <b>0</b>     | (45)  | 0     | (45)  | (71)  |
| Marketing and public relations                          | <b>58</b>    | 61    | 66    | 189   | 225   |
| Travel and entertainment                                | <b>87</b>    | 96    | 87    | 262   | 270   |
| Professional fees                                       | <b>197</b>   | 208   | 275   | 600   | 781   |
| Outsourcing of IT and other services                    | <b>175</b>   | 181   | 320   | 532   | 908   |
| Litigation, regulatory and similar matters <sup>4</sup> | <b>3</b>     | 131   | 197   | 123   | 239   |
| Other   | <b>23</b>    | 7     | 32    | 59    | 93    |
| <b>Total general and administrative expenses</b>        | <b>2,233</b> | 2,308 | 2,282 | 6,777 | 5,993 |

1 Relates to subsidiaries not in the UBS AG scope of consolidation. 2 The increase compared with the first nine months of 2017 was mainly due to the transfer of shared services functions in Switzerland and the UK from UBS AG to UBS Business Solutions AG in the second quarter and fourth quarter of 2017, respectively. Refer to the Annual Report 2017 for more information.

3 The credits presented for the periods shown are related to prior years.

4 Reflects the net increase / (release) in provisions for litigation, regulatory and similar matters recognized in the income statement. Refer to Note 14 for more information. Also includes recoveries from third parties (third quarter of 2018: CHF 0 million; second quarter of 2018: CHF 10 million; third quarter of 2017: CHF 50 million).

**Note 7 Income taxes**

UBS AG recognized an income tax expense of CHF 393 million for the third quarter of 2018 compared with an income tax expense of CHF 256 million for the third quarter of 2017.

The current tax expense was CHF 211 million compared with CHF 217 million in the third quarter of 2017 and related to taxable profits of UBS Switzerland AG and other subsidiaries and branches of UBS AG.

Deferred tax expenses were CHF 182 million in the third quarter of 2018 compared with CHF 39 million in the third 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.

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

## Note 8 Expected credit loss measurement

### a) Expected credit losses in the period

Total net credit loss expenses amounted to CHF 9 million in the third quarter of 2018, reflecting an CHF 11 million decrease in expected credit losses (ECL) from stage 1 and 2 positions and a CHF 20 million increase in losses from credit-impaired (stage 3) positions.

An CHF 11 million decrease in stage 1 and 2 ECL was recognized in the period, primarily arising from a canceled facility in the Investment Bank, as well as improvements in market data, macroeconomic data and other risk parameters, predominantly impacting Personal & Corporate Banking and Global Wealth Management portfolios, partly offset by the effect of updated scenario weights, as well as new transactions.

Stage 3 losses of CHF 20 million were recognized across a number of defaulted positions, predominantly in Personal & Corporate Banking and Global Wealth Management.

There have not been any material changes to the models used to calculate ECL and to determine stage allocation since 1 January 2018, the date of transition to IFRS 9.

As outlined in Note 18, UBS AG uses four different economic scenarios in the ECL calculation: an upside, a baseline, a mild downside and a severe downside scenario. A quantitative estimation of the scenario weights was re-performed in the third quarter of 2018 and the model-based quantitative results indicated a shift from the upside scenario to the mild downside scenario. Consequently, UBS AG decided to update the scenario weights applied to calculate ECL as of 30 September 2018, resulting in a shift of 2.5% from the upside to the mild downside scenario when compared with the weights applied as of 30 June 2018.

### Economic scenarios and weights applied

| ECL scenario    | Assigned weights in % |         |
|-----------------|-----------------------|---------|
|                 | 30.9.18               | 30.6.18 |
| Upside          | 17.5                  | 20.0    |
| Baseline        | 42.5                  | 42.5    |
| Mild downside   | 32.5                  | 30.0    |
| Severe downside | 7.5                   | 7.5     |

Market data, such as house prices, equity indices and foreign exchange rates, and macroeconomic factors, such as unemployment rates and gross domestic product (GDP), have been updated to reflect the most recently observed economic trends and future outlooks. The updates reflect favorable developments in the last quarter and offset the effect of the aforementioned change in scenario weights.

**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 September 2018 and 30 June 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.

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

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

| <b>Segment</b>                                  | <b>Segment description</b>  | <b>Description of credit risk sensitivity</b>  | <b>Business division / Corporate Center</b>                |
|---|---|--|--|
| <b>Private clients with mortgages</b>           | Lending to private clients secured by owner-occupied real estate and personal account overdrafts of those clients | Sensitive to the interest rate environment, employment status and influence from regional effects (e.g., property values)  | –Personal & Corporate Banking<br>–Global Wealth Management |
| <b>Real estate financing</b>                    | Rental or income-producing real estate financing to private and 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 |
| <b>Large corporate clients</b>                  | Lending to large corporate and multinational clients  | Sensitive to GDP development, seasonality and business cycles and collateral values (diverse collateral including real estate and other collateral types)  | –Personal & Corporate Banking<br>–Investment Bank          |
| <b>SME clients</b>                              | Lending to small- and medium-sized corporate clients  | Sensitive to GDP development, the interest rate environment and, to some extent, seasonality and business cycles and collateral values (diverse collateral including real estate and other collateral types) | –Personal & Corporate Banking                              |
| <b>Financial intermediaries and hedge funds</b> | Financial institutions and pension funds, including exposures to broker-dealers and clearing houses               | Sensitive to GDP development, the interest rate environment, regulatory changes and political risk   | –Personal & Corporate Banking<br>–Investment Bank          |

|  |  |  |   |
|--|--|--|---|
| <b>Lombard</b>                             | Loans secured by pledges of marketable securities, guarantees and other forms of collateral                  | Sensitive to the market (e.g., changes in collateral, as well as in invested assets)   | –Corporate Center<br>–Personal & Corporate Banking<br><br>–Global Wealth Management |
| <b>Credit cards</b>                        | Credit card solutions in Switzerland and the US  | Sensitive to the interest rate environment and employment  | –Personal & Corporate Banking   |
| <b>Commodity trade finance</b>             | Working capital financing of commodity traders, generally extended on a self-liquidating transactional basis | status<br>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 | –Global Wealth Management<br>–Personal & Corporate Banking                          |
| <b>Leasing (finance lease receivables)</b> | Financing of private aircraft  | Sensitive to changes in collateral values  | –Personal & Corporate Banking   |
|  | Financing of investment goods  | Sensitive to GDP development, the interest rate environment, seasonality and business cycles and collateral values   |   |

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

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

CHF million

30.9.18

| Financial instruments measured at amortized cost                     | Carrying amount |                |               |              | ECL allowance  |             |              |              |
|--|-----------------|----------------|---------------|--------------|----------------|-------------|--------------|--------------|
|  | Total           | Stage 1        | Stage 2       | Stage 3      | Total          | Stage 1     | Stage 2      | Stage 3      |
| Cash and balances at central banks                                   | 92,632          | 92,632         | 0             | 0            | 0              | 0           | 0            | 0            |
| Loans and advances to banks  | 15,284          | 15,277         | 5             | 2            | (5)            | (2)         | 0            | (3)          |
| Receivables from securities financing transactions                   | 81,951          | 81,951         | 0             | 0            | (2)            | (2)         | 0            | 0            |
| Cash collateral receivables on derivative instruments                | 21,414          | 21,414         | 0             | 0            | 0              | 0           | 0            | 0            |
| Loans and advances to customers                                      | 320,236         | 297,696        | 20,939        | 1,601        | (832)          | (50)        | (170)        | (612)        |
| <i>of which: Private clients with mortgage</i>                       | 123,568         | 112,299        | 10,505        | 765          | (117)          | (10)        | (74)         | (33)         |
| <i>of which: Real estate financing</i>                               | 35,964          | 27,332         | 8,592         | 39           | (62)           | (4)         | (48)         | (10)         |
| <i>of which: Large corporate clients</i>                             | 10,710          | 10,095         | 543           | 72           | (84)           | (5)         | (10)         | (68)         |
| <i>of which: SME clients</i>   | 9,710           | 8,351          | 812           | 546          | (291)          | (6)         | (25)         | (261)        |
| <i>of which: Lombard</i>   | 114,093         | 114,070        | 0             | 23           | (97)           | (4)         | 0            | (93)         |
| <i>of which: Credit cards</i>  | 1,427           | 1,126          | 288           | 13           | (36)           | (6)         | (12)         | (18)         |
| <i>of which: Commodity trade finance</i>                             | 3,534           | 3,505          | 12            | 17           | (84)           | (5)         | 0            | (80)         |
| Other financial assets measured at amortized cost                    | 20,682          | 19,757         | 274           | 651          | (168)          | (37)        | (5)          | (125)        |
| <i>of which: Loans to financial advisors</i>                         | 3,294           | 2,889          | 103           | 302          | (121)          | (30)        | (3)          | (89)         |
| <b>Total financial assets measured at amortized cost<sup>1</sup></b> | <b>552,199</b>  | <b>528,727</b> | <b>21,217</b> | <b>2,254</b> | <b>(1,007)</b> | <b>(92)</b> | <b>(176)</b> | <b>(740)</b> |
|  | <b>6,618</b>    | <b>6,618</b>   | <b>0</b>      | <b>0</b>     | <b>0</b>       | <b>0</b>    | <b>0</b>     | <b>0</b>     |

**Financial assets  
measured at fair  
value through  
other  
comprehensive  
income  
Total on-balance  
sheet financial  
assets in scope of  
ECL requirements**

**558,817 535,345 21,217 2,254 (1,007) (92) (176) (740)**

| <b>Off-balance sheet<br/>(in scope of ECL)</b>                          | <b>Total exposure</b> |                |                |                | <b>ECL provision</b> |                |                |                |
|---|-----------------------|----------------|----------------|----------------|----------------------|----------------|----------------|----------------|
|   | <b>Total</b>          | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> | <b>Total</b>         | <b>Stage 1</b> | <b>Stage 2</b> | <b>Stage 3</b> |
| Guarantees  | 17,133                | 16,616         | 336            | 182            | (39)                 | (7)            | (1)            | (31)           |
| <i>of which: Large corporate clients</i>                                | 3,798                 | 3,481          | 203            | 115            | (7)                  | (1)            | 0              | (5)            |
| <i>of which: SME clients</i>  | 1,246                 | 1,075          | 115            | 56             | (23)                 | 0              | 0              | (22)           |
| <i>of which: Financial intermediaries and hedge funds</i>               | 6,972                 | 6,967          | 5              | 0              | (4)                  | (4)            | 0              | 0              |
| <i>of which: Lombard</i>  | 2,317                 | 2,317          | 0              | 0              | 0                    | 0              | 0              | 0              |
| <i>of which: Commodity trade finance</i>                                | 1,861                 | 1,840          | 10             | 11             | (1)                  | (1)            | 0              | 0              |
| Irrevocable loan commitments  | 29,659                | 29,042         | 550            | 66             | (39)                 | (31)           | (8)            | 0              |
| <i>of which: Large corporate clients</i>                                | 21,286                | 20,697         | 537            | 52             | (31)                 | (23)           | (8)            | 0              |
| Forward starting reverse repurchase and securities borrowing agreements | 3,833                 | 3,833          | 0              | 0              | 0                    | 0              | 0              | 0              |
| Committed unconditionally revocable credit lines                        | 37,146                | 36,030         | 1,026          | 90             | (35)                 | (17)           | (18)           | 0              |
| <i>of which: Real estate financing</i>                                  | 2,797                 | 2,351          | 446            | 0              | (18)                 | (4)            | (14)           | 0              |
| <i>of which: Large corporate clients</i>                                | 4,200                 | 4,121          | 62             | 17             | (1)                  | (1)            | 0              | 0              |
| <i>of which: SME clients</i>  | 4,440                 | 4,191          | 179            | 70             | (7)                  | (6)            | (2)            | 0              |
| <i>of which: Lombard</i>  | 6,063                 | 6,063          | 0              | 0              | 0                    | 0              | 0              | 0              |
| <i>of which: Credit cards</i>   | 7,032                 | 6,745          | 287            | 0              | (5)                  | (3)            | (2)            | 0              |
| <i>of which: Commodity trade finance</i>                                | 3,061                 | 3,048          | 12             | 1              | (1)                  | (1)            | 0              | 0              |



|   |               |               |              |            |                |              |              |              |
|---|---------------|---------------|--------------|------------|----------------|--------------|--------------|--------------|
| Irrevocable<br>committed<br>prolongation of<br>existing loans                           | 2,454         | 2,369         | 85           | 0          | (1)            | (1)          | 0            | 0            |
| <b>Total off-balance<br/>sheet financial<br/>instruments and<br/>other credit lines</b> | <b>90,226</b> | <b>87,890</b> | <b>1,998</b> | <b>338</b> | <b>(115)</b>   | <b>(56)</b>  | <b>(27)</b>  | <b>(31)</b>  |
| <b>Total allowances<br/>and provisions</b>  |               |               |              |            | <b>(1,122)</b> | <b>(148)</b> | <b>(203)</b> | <b>(771)</b> |

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

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

| CHF million  | 30.6.18         |                |               |              | ECL allowance  |             |              |              |
|--|-----------------|----------------|---------------|--------------|----------------|-------------|--------------|--------------|
|  | Carrying amount |                |               |              | Total          | Stage 1     | Stage 2      | Stage 3      |
| <b>Financial instruments measured at amortized cost</b>              | Total           | Stage 1        | Stage 2       | Stage 3      | Total          | Stage 1     | Stage 2      | Stage 3      |
| Cash and balances at central banks                                   | 102,262         | 102,262        | 0             | 0            | 0              | 0           | 0            | 0            |
| Loans and advances to banks  | 15,518          | 15,510         | 8             | 0            | (4)            | (2)         | 0            | (2)          |
| Receivables from securities financing transactions                   | 76,450          | 76,450         | 0             | 0            | (2)            | (2)         | 0            | 0            |
| Cash collateral receivables on derivative instruments                | 24,937          | 24,937         | 0             | 0            | 0              | 0           | 0            | 0            |
| Loans and advances to customers                                      | 320,569         | 295,332        | 23,612        | 1,625        | (847)          | (53)        | (174)        | (620)        |
| <i>of which: Private clients with mortgage</i>                       | 121,858         | 108,533        | 12,498        | 826          | (122)          | (9)         | (79)         | (34)         |
| <i>of which: Real estate financing</i>                               | 35,659          | 26,826         | 8,795         | 39           | (60)           | (3)         | (49)         | (8)          |
| <i>of which: Large corporate clients</i>                             | 10,486          | 9,841          | 555           | 91           | (82)           | (5)         | (9)          | (68)         |
| <i>of which: SME clients</i>   | 9,920           | 8,055          | 1,284         | 581          | (292)          | (8)         | (25)         | (258)        |
| <i>of which: Lombard</i>   | 116,795         | 116,779        | 0             | 16           | (90)           | (4)         | 0            | (86)         |
| <i>of which: Credit cards</i>  | 1,406           | 1,123          | 268           | 14           | (37)           | (6)         | (11)         | (20)         |
| <i>of which: Commodity trade finance</i>                             | 3,075           | 3,049          | 13            | 13           | (88)           | (4)         | 0            | (84)         |
| Other financial assets measured at amortized cost                    | 21,072          | 20,264         | 292           | 516          | (168)          | (39)        | (6)          | (123)        |
| <i>of which: Loans to financial advisors</i>                         | 3,394           | 3,139          | 85            | 171          | (124)          | (32)        | (2)          | (90)         |
| <b>Total financial assets measured at amortized cost<sup>1</sup></b> | <b>560,808</b>  | <b>534,755</b> | <b>23,912</b> | <b>2,141</b> | <b>(1,022)</b> | <b>(97)</b> | <b>(179)</b> | <b>(746)</b> |
|  | <b>6,941</b>    | <b>6,941</b>   | <b>0</b>      | <b>0</b>     | <b>0</b>       | <b>0</b>    | <b>0</b>     | <b>0</b>     |

**Financial assets  
measured at fair  
value through  
other  
comprehensive  
income  
Total on-balance  
sheet financial  
assets in scope of  
ECL requirements**

**567,749 541,696 23,912 2,141 (1,022) (97) (179) (746)**

|   | Total exposure |         |         |         | ECL provision |         |         |         |
|---|----------------|---------|---------|---------|---------------|---------|---------|---------|
|   | Total          | Stage 1 | Stage 2 | Stage 3 | Total         | Stage 1 | Stage 2 | Stage 3 |
| <b>Off-balance sheet<br/>(in scope of ECL)</b>                                      |                |         |         |         |               |         |         |         |
| Guarantees  | 18,529         | 17,826  | 506     | 197     | (34)          | (7)     | (1)     | (26)    |
| <i>of which: Large<br/>corporate clients</i>  | 3,818          | 3,462   | 218     | 138     | (7)           | (1)     | 0       | (5)     |
| <i>of which: SME<br/>clients</i>  | 1,262          | 996     | 221     | 45      | (16)          | 0       | (1)     | (15)    |
| <i>of which: Financial<br/>intermediaries and<br/>hedge funds</i>                   | 7,473          | 7,464   | 9       | 0       | (4)           | (4)     | 0       | 0       |
| <i>of which: Lombard</i>  | 2,493          | 2,493   | 0       | 0       | 0             | 0       | 0       | 0       |
| <i>of which:<br/>Commodity trade<br/>finance</i>                                    | 2,398          | 2,342   | 43      | 13      | (4)           | (1)     | 0       | (3)     |
| Irrevocable loan<br>commitments   | 31,009         | 30,407  | 563     | 38      | (42)          | (34)    | (8)     | 0       |
| <i>of which: Large<br/>corporate clients</i>  | 21,914         | 21,342  | 550     | 22      | (34)          | (27)    | (7)     | 0       |
| Forward starting<br>reverse repurchase<br>and securities<br>borrowing<br>agreements | 1,545          | 1,545   | 0       | 0       | 0             | 0       | 0       | 0       |
| Committed<br>unconditionally<br>revocable credit<br>lines                           | 34,129         | 33,011  | 1,053   | 65      | (33)          | (21)    | (13)    | 0       |
| <i>of which: Real<br/>estate financing</i>  | 2,676          | 2,404   | 272     | 0       | (16)          | (8)     | (8)     | 0       |
| <i>of which: Large<br/>corporate clients</i>  | 4,065          | 4,000   | 65      | 0       | (1)           | (1)     | 0       | 0       |
| <i>of which: SME<br/>clients</i>  | 4,407          | 3,961   | 390     | 57      | (8)           | (5)     | (2)     | 0       |
| <i>of which: Lombard</i>  | 6,231          | 6,231   | 0       | 0       | 0             | 0       | 0       | 0       |
| <i>of which: Credit<br/>cards</i>   | 6,980          | 6,712   | 267     | 0       | (5)           | (3)     | (1)     | 0       |
| <i>of which:<br/>Commodity trade<br/>finance</i>                                    | 2,707          | 2,703   | 0       | 5       | (1)           | (1)     | 0       | 0       |

|   |               |               |              |            |                |              |              |              |
|---|---------------|---------------|--------------|------------|----------------|--------------|--------------|--------------|
| Irrevocable<br>committed<br>prolongation of<br>existing loans                           | 2,760         | 2,741         | 19           | 0          | (1)            | (1)          | 0            | 0            |
| <b>Total off-balance<br/>sheet financial<br/>instruments and<br/>other credit lines</b> | <b>87,972</b> | <b>85,531</b> | <b>2,142</b> | <b>300</b> | <b>(111)</b>   | <b>(62)</b>  | <b>(23)</b>  | <b>(26)</b>  |
| <b>Total allowances<br/>and provisions</b>  |               |               |              |            | <b>(1,133)</b> | <b>(159)</b> | <b>(202)</b> | <b>(772)</b> |

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

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

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

| CHF million   | Carrying amount |                |               |                      | ECL allowance  |             |              |              |
|---|-----------------|----------------|---------------|----------------------|----------------|-------------|--------------|--------------|
|   | Total           | Stage 1        | Stage 2       | Stage 3 <sup>2</sup> | Total          | Stage 1     | Stage 2      | Stage 3      |
| <b>Financial instruments measured at amortized cost</b>                           |                 |                |               |                      |                |             |              |              |
| Cash and balances at central banks  | 87,775          | 87,775         | 0             | 0                    | 0              | 0           | 0            | 0            |
| Loans and advances to banks   | 13,673          | 13,654         | 18            | 0                    | (5)            | (2)         | 0            | (3)          |
| Receivables from securities financing transactions                                | 84,674          | 84,674         | 0             | 0                    | (2)            | (2)         | 0            | 0            |
| Cash collateral receivables on derivative instruments                             | 23,434          | 23,434         | 0             | 0                    | 0              | 0           | 0            | 0            |
| Loans and advances to customers   | 312,602         | 283,256        | 27,855        | 1,491                | (867)          | (61)        | (163)        | (644)        |
| <i>of which: Private clients with mortgage</i>                                    | 119,560         | 103,867        | 15,006        | 686                  | (124)          | (12)        | (69)         | (44)         |
| <i>of which: Real estate financing</i>  | 35,896          | 26,210         | 9,657         | 29                   | (62)           | (3)         | (53)         | (6)          |
| <i>of which: Large corporate clients</i>  | 11,004          | 10,358         | 557           | 88                   | (69)           | (6)         | 0            | (63)         |
| <i>of which: SME clients</i>  | 10,322          | 8,218          | 1,518         | 585                  | (287)          | (8)         | (23)         | (256)        |
| <i>of which: Lombard</i>  | 110,601         | 110,584        | 0             | 17                   | (84)           | (5)         | 0            | (79)         |
| Other financial assets measured at amortized cost                                 | 18,375          | 17,877         | 32            | 465                  | (136)          | (29)        | (1)          | (106)        |
| <i>of which: Loans to financial advisors</i>                                      | 3,086           | 2,874          | 32            | 179                  | (115)          | (28)        | (1)          | (87)         |
| <b>Total financial assets measured at amortized cost<sup>1</sup></b>              | <b>540,533</b>  | <b>510,671</b> | <b>27,906</b> | <b>1,956</b>         | <b>(1,011)</b> | <b>(95)</b> | <b>(164)</b> | <b>(752)</b> |
| <b>Financial assets measured at fair value through other comprehensive income</b> | <b>6,755</b>    | <b>6,755</b>   | <b>0</b>      | <b>0</b>             | <b>0</b>       | <b>0</b>    | <b>0</b>     | <b>0</b>     |

| <b>Total on-balance sheet financial assets in scope of ECL requirements</b> | <b>547,288</b> | <b>517,426</b> | <b>27,906</b> | <b>1,956</b>         | <b>(1,011)</b> | <b>(95)</b>  | <b>(164)</b> | <b>(752)</b> |
|---|----------------|----------------|---------------|----------------------|----------------|--------------|--------------|--------------|
|   | Total exposure |                |               |                      | ECL provision  |              |              |              |
| <b>Off-balance sheet (in scope of ECL)</b>                                  | Total          | Stage 1        | Stage 2       | Stage 3 <sup>2</sup> | Total          | Stage 1      | Stage 2      | Stage 3      |
| Guarantees  | 17,152         | 16,331         | 633           | 189                  | (37)           | (6)          | (2)          | (29)         |
| Irrevocable loan commitments  | 30,852         | 30,153         | 662           | 37                   | (36)           | (24)         | (8)          | (4)          |
| <i>of which: Large corporate clients</i>                                    | 21,999         | 21,344         | 629           | 26                   | (27)           | (19)         | (4)          | (4)          |
| Forward starting reverse repurchase and securities borrowing agreements     | 1,216          | 1,216          | 0             | 0                    | 0              | 0            | 0            | 0            |
| Committed unconditionally revocable credit lines                            | 36,690         | 34,471         | 2,157         | 62                   | (34)           | (19)         | (15)         | 0            |
| <i>of which: Real estate financing</i>                                      | 3,103          | 2,097          | 1,007         | 0                    | (9)            | (2)          | (7)          | 0            |
| <i>of which: SME clients</i>  | 4,770          | 4,311          | 406           | 53                   | (7)            | (5)          | (2)          | 0            |
| Irrevocable committed prolongation of existing loans                        | 1,635          | 1,634          | 0             | 1                    | 0              | 0            | 0            | 0            |
| <b>Total off-balance sheet financial instruments and other credit lines</b> | <b>87,545</b>  | <b>83,805</b>  | <b>3,452</b>  | <b>288</b>           | <b>(107)</b>   | <b>(49)</b>  | <b>(24)</b>  | <b>(33)</b>  |
| <b>Total allowances and provisions</b>                                      |                |                |               |                      | <b>(1,117)</b> | <b>(144)</b> | <b>(188)</b> | <b>(785)</b> |

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 no allowance has been recognized (e.g., because they are expected to be fully recoverable through the collateral held). Refer to Note 18 for more information on the adoption of IFRS 9.

## Note 9 Fair value measurement

This Note provides fair value measurement information for both financial and non-financial instruments and should be read in conjunction with "Note 22 Fair value measurement" in the

“Consolidated financial statements” section of the Annual Report 2017, which provides more information on valuation principles, valuation governance, fair value hierarchy classification, valuation adjustments, valuation techniques and inputs, sensitivity of fair value measurements and methods applied to calculate fair values for financial instruments not measured at fair value.

### **Adoption of IFRS 9**

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

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

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

An immaterial amount of financial assets were reclassified from *Financial assets at fair value held for trading* and *Financial assets at fair value not held for trading* to *Loans and advances to customers* upon adoption of IFRS 9. An immaterial amount of associated loan commitments, which were recognized as derivative liabilities as of 31 December 2017, were also derecognized from the balance sheet. No material fair value gains and losses would have been recognized in the income statement in the third 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 18 for more information on the adoption of IFRS 9**

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

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

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

| CHF million   | 30.9.18        |                |              |                | 30.6.18 |         |         |         | Total | Level 3 |
|---|----------------|----------------|--------------|----------------|---------|---------|---------|---------|-------|---------|
|   | Level 1        | Level 2        | Level 3      | Total          | Level 1 | Level 2 | Level 3 | Total   |       |         |
| <b>Financial assets measured at fair value on a recurring basis</b> |                |                |              |                |         |         |         |         |       |         |
| Financial assets at fair value held for trading                     | <b>104,346</b> | <b>14,171</b>  | <b>2,487</b> | <b>121,004</b> | 96,133  | 12,862  | 3,263   | 112,258 | 108,9 |         |
| of which:   |                |                |              |                |         |         |         |         |       |         |
| Government bills / bonds  | <b>9,961</b>   | <b>1,275</b>   | <b>0</b>     | <b>11,237</b>  | 10,650  | 877     | 0       | 11,527  | 11,9  |         |
| Corporate and municipal bonds                                       | <b>462</b>     | <b>8,043</b>   | <b>617</b>   | <b>9,123</b>   | 550     | 7,596   | 627     | 8,773   |       |         |
| Loans   | <b>0</b>       | <b>2,872</b>   | <b>1,174</b> | <b>4,046</b>   | 0       | 2,096   | 1,733   | 3,829   |       |         |
| Investment fund units   | <b>8,534</b>   | <b>1,614</b>   | <b>441</b>   | <b>10,590</b>  | 8,716   | 1,974   | 540     | 11,230  | 7,2   |         |
| Asset-backed securities   | <b>0</b>       | <b>159</b>     | <b>153</b>   | <b>312</b>     | 0       | 110     | 157     | 266     |       |         |
| Equity instruments  | <b>85,388</b>  | <b>208</b>     | <b>101</b>   | <b>85,697</b>  | 76,218  | 210     | 188     | 76,615  | 79,2  |         |
| Financial assets for unit-linked investment contracts <sup>2</sup>  |                |                |              |                |         |         |         |         |       | 10,4    |
| Derivative financial instruments                                    | <b>799</b>     | <b>111,900</b> | <b>1,549</b> | <b>114,248</b> | 878     | 119,245 | 1,481   | 121,605 |       | 4       |
| of which:   |                |                |              |                |         |         |         |         |       |         |
| Interest rate contracts   | <b>0</b>       | <b>34,599</b>  | <b>458</b>   | <b>35,056</b>  | 0       | 38,555  | 226     | 38,782  |       |         |
|   | <b>0</b>       | <b>1,700</b>   | <b>484</b>   | <b>2,184</b>   | 0       | 1,674   | 452     | 2,127   |       |         |



|  |               |               |              |               |        |        |       |        |      |  |
|--|---------------|---------------|--------------|---------------|--------|--------|-------|--------|------|--|
| <i>Credit derivative contracts</i>   |               |               |              |               |        |        |       |        |      |  |
| <i>Foreign exchange contracts</i>  | <b>448</b>    | <b>49,347</b> | <b>40</b>    | <b>49,834</b> | 563    | 52,941 | 186   | 53,690 | 2    |  |
| <i>Equity / index contracts</i>  | <b>8</b>      | <b>24,586</b> | <b>561</b>   | <b>25,154</b> | 7      | 24,320 | 612   | 24,939 |      |  |
| <i>Commodity contracts</i>   | <b>0</b>      | <b>1,585</b>  | <b>0</b>     | <b>1,585</b>  | 0      | 1,564  | 0     | 1,564  |      |  |
| <br>   |               |               |              |               |        |        |       |        |      |  |
| Brokerage receivables <sup>3</sup>   | <b>0</b>      | <b>20,235</b> | <b>0</b>     | <b>20,235</b> | 0      | 18,415 | 0     | 18,415 |      |  |
| <br>   |               |               |              |               |        |        |       |        |      |  |
| Financial assets at fair value not held for trading  | <b>38,107</b> | <b>44,019</b> | <b>4,725</b> | <b>86,852</b> | 42,929 | 45,177 | 4,769 | 92,875 | 23,0 |  |
| <i>of which:</i>   |               |               |              |               |        |        |       |        |      |  |
| <i>Government bills / bonds</i>  | <b>18,271</b> | <b>3,635</b>  | <b>0</b>     | <b>21,906</b> | 21,853 | 3,452  | 0     | 25,305 | 22,0 |  |
| <i>Corporate and municipal bonds</i>   | <b>914</b>    | <b>18,462</b> | <b>0</b>     | <b>19,375</b> | 958    | 21,849 | 0     | 22,807 | 7    |  |
| <i>Financial assets for unit-linked investment contracts<sup>2</sup></i>                               | <b>18,644</b> | <b>4,652</b>  | <b>0</b>     | <b>23,295</b> | 19,824 | 4,735  | 8     | 24,568 |      |  |
| <i>Loans (including structured loans)</i>  | <b>0</b>      | <b>7,455</b>  | <b>1,871</b> | <b>9,326</b>  | 0      | 7,394  | 1,904 | 9,298  |      |  |
| <i>Structured securities financing transactions<sup>4</sup></i>  | <b>0</b>      | <b>9,647</b>  | <b>53</b>    | <b>9,700</b>  | 0      | 7,556  | 65    | 7,622  |      |  |
| <i>Auction-rate securities<sup>3</sup></i>   | <b>0</b>      | <b>0</b>      | <b>1,780</b> | <b>1,780</b>  | 0      | 0      | 1,832 | 1,832  |      |  |
| <i>Investment fund units</i>   | <b>188</b>    | <b>102</b>    | <b>115</b>   | <b>405</b>    | 194    | 117    | 118   | 429    | 2    |  |
| <i>Equity instruments<sup>5</sup></i>  | <b>92</b>     | <b>19</b>     | <b>557</b>   | <b>668</b>    | 101    | 16     | 484   | 602    |      |  |
| <i>Other</i>   | <b>0</b>      | <b>47</b>     | <b>350</b>   | <b>397</b>    | 0      | 57     | 357   | 414    |      |  |
| <br>   |               |               |              |               |        |        |       |        |      |  |
| <b>Financial assets measured at fair value through other comprehensive income on a recurring basis</b> |               |               |              |               |        |        |       |        |      |  |
| Financial assets measured at fair value through other  | <b>2,400</b>  | <b>4,218</b>  | <b>0</b>     | <b>6,618</b>  | 2,608  | 4,333  | 0     | 6,941  | 3,0  |  |

comprehensive  
income  
of which:

|                                     |       |       |   |       |       |       |   |       |     |
|-------------------------------------|-------|-------|---|-------|-------|-------|---|-------|-----|
| Government<br>bills / bonds         | 2,359 | 82    | 0 | 2,441 | 2,563 | 111   | 0 | 2,675 | 2,7 |
| Corporate and<br>municipal<br>bonds | 41    | 406   | 0 | 446   | 44    | 390   | 0 | 434   | 1   |
| Asset-backed<br>securities          | 0     | 3,731 | 0 | 3,731 | 0     | 3,832 | 0 | 3,832 |     |
| Other <sup>5</sup>                  | 0     | 0     | 0 | 0     | 0     | 0     | 0 | 0     | 1   |

**Non-financial assets measured at fair value on a  
recurring basis**

|   |       |   |   |       |       |   |   |       |     |
|---|-------|---|---|-------|-------|---|---|-------|-----|
| Other<br>non-financial<br>assets<br>Precious metals<br>and other<br>physical<br>commodities | 4,035 | 0 | 0 | 4,035 | 3,975 | 0 | 0 | 3,975 | 4,5 |
|---|-------|---|---|-------|-------|---|---|-------|-----|

**Non-financial assets measured at fair value on a  
non-recurring basis**

|  |                |                |              |                |         |         |       |         |       |
|--|----------------|----------------|--------------|----------------|---------|---------|-------|---------|-------|
| Other<br>non-financial<br>assets <sup>6</sup>      | 0              | 81             | 3            | 84             | 0       | 57      | 9     | 65      |       |
| <b>Total assets<br/>measured at<br/>fair value</b> | <b>149,687</b> | <b>194,625</b> | <b>8,764</b> | <b>353,075</b> | 146,523 | 200,090 | 9,522 | 356,135 | 140,0 |

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

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

| CHF million | 30.9.18 |         |         |       | 30.6.18 |         |         |       |
|-------------|---------|---------|---------|-------|---------|---------|---------|-------|
|             | 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 | <b>26,331</b> | <b>5,579</b>   | <b>120</b>   | <b>32,030</b>  | 26,211 | 5,117   | 88    | 31,416  | 26,000 |
| <i>of which:</i>                                     |               |                |              |                |        |         |       |         |        |
| Government bills / bonds                             | <b>3,279</b>  | <b>308</b>     | <b>0</b>     | <b>3,588</b>   | 4,386  | 299     | 0     | 4,685   | 5,100  |
| Corporate and municipal bonds                        | <b>7</b>      | <b>4,680</b>   | <b>62</b>    | <b>4,749</b>   | 138    | 4,113   | 34    | 4,285   | 5,000  |
| Investment fund units                                | <b>294</b>    | <b>138</b>     | <b>0</b>     | <b>432</b>     | 785    | 214     | 2     | 1,002   | 5,000  |
| Equity instruments                                   | <b>22,750</b> | <b>452</b>     | <b>57</b>    | <b>23,259</b>  | 20,901 | 488     | 52    | 21,440  | 20,200 |
| Derivative financial instruments                     | <b>758</b>    | <b>110,384</b> | <b>2,411</b> | <b>113,553</b> | 875    | 115,955 | 2,394 | 119,224 | 30,000 |
| <i>of which:</i>                                     |               |                |              |                |        |         |       |         |        |
| Interest rate contracts                              | <b>5</b>      | <b>30,837</b>  | <b>320</b>   | <b>31,163</b>  | 6      | 33,738  | 285   | 34,030  | 30,000 |
| Credit derivative contracts                          | <b>0</b>      | <b>2,514</b>   | <b>576</b>   | <b>3,090</b>   | 0      | 2,620   | 613   | 3,233   | 30,000 |
| Foreign exchange contracts                           | <b>445</b>    | <b>48,084</b>  | <b>97</b>    | <b>48,627</b>  | 585    | 52,922  | 115   | 53,621  | 20,000 |
| Equity / index contracts                             | <b>5</b>      | <b>27,209</b>  | <b>1,415</b> | <b>28,629</b>  | 2      | 25,122  | 1,369 | 26,493  | 4,000  |
| Commodity contracts                                  | <b>0</b>      | <b>1,671</b>   | <b>1</b>     | <b>1,672</b>   | 0      | 1,365   | 1     | 1,366   | 3,000  |

**Financial liabilities designated at fair value on a recurring basis**

|  |          |               |          |               |   |        |   |        |        |
|--|----------|---------------|----------|---------------|---|--------|---|--------|--------|
| Brokerage payables designated at fair value <sup>3</sup> | <b>0</b> | <b>38,268</b> | <b>0</b> | <b>38,268</b> | 0 | 37,904 | 0 | 37,904 | 37,904 |
|--|----------|---------------|----------|---------------|---|--------|---|--------|--------|

|   |   |        |        |        |   |        |        |        |
|---|---|--------|--------|--------|---|--------|--------|--------|
| Debt issued designated at fair value                            | 0 | 51,527 | 10,105 | 61,631 | 0 | 46,683 | 10,166 | 56,849 |
| Other financial liabilities designated at fair value            | 0 | 33,931 | 673    | 34,605 | 2 | 36,252 | 1,089  | 37,342 |
| <i>of which:</i>  |   |        |        |        |   |        |        |        |
| <i>Amounts due under unit-linked investment contracts</i>       | 0 | 23,499 | 0      | 23,499 | 0 | 24,913 | 0      | 24,913 |
| <i>Structured securities financing transactions<sup>4</sup></i> | 0 | 8,335  | 71     | 8,406  | 0 | 6,533  | 0      | 6,533  |
| <i>Over-the-counter debt instruments</i>                        | 0 | 2,095  | 599    | 2,694  | 2 | 4,801  | 1,085  | 5,888  |

**Non-financial liabilities measured at fair value on a non-recurring basis**

|                                 |   |   |   |   |   |   |   |   |
|---------------------------------|---|---|---|---|---|---|---|---|
| Other non-financial liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
|---------------------------------|---|---|---|---|---|---|---|---|

**Total liabilities measured at fair value**

1 Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts in this table. The fair value of these derivatives was not material for the periods presented. 2 Financial investment contracts were reclassified from Financial assets at fair value held for trading to Financial liabilities for trading as of 1 January 2018. Refer to Note 18 for more information. 3 Comparative period information for financial assets and liabilities that were measured at amortized cost prior to the adoption of IFRS 9 or IAS 39 is presented in Note 18 for more information. 4 The increases in Structured securities financing transactions from 31 December 2018 primarily relate to the reclassification of certain balances from amortized cost to fair value through the adoption of IFRS 9 on 1 January 2018. Refer to Note 18 for more information. 5 Upon adoption of IFRS 9, financial instruments that were formerly classified as available for sale under IAS 39 were reclassified to Financial assets held for trading. Refer to Note 18 for more information. 6 Other non-financial assets primarily consist of non-current assets held for sale, which are measured at the lower of their net carrying amount or fair value.

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

– Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;

- Level 2 – valuation techniques for which all significant inputs are, or are based on, observable market data; or
- Level 3 – valuation techniques for which significant inputs are not based on observable market data.

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

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

**Note 9 Fair value measurement (continued)****Auction rate securities**

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

**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 their on-demand nature, these receivables and payables are designated as Level 2.

**b) Valuation adjustments****Deferred day-1 profit or loss 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 deferred day-1 profit or loss 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 deferred day-1 profit or loss reserve release was driven by increased observability of the own credit adjustment (OCA) curve used to value these positions following the issuance of a 30-year senior unsecured bond in the second quarter of 2018.

**Deferred day-1 profit or loss reserves**

| <i>CHF million</i>                                    | For the quarter ended |         |         | Year-to-date |         |
|---|-----------------------|---------|---------|--------------|---------|
|   | <b>30.9.18</b>        | 30.6.18 | 30.9.17 | 30.9.18      | 30.9.17 |
| <b>Reserve balance at the beginning of the period</b> | <b>274</b>            | 457     | 349     | 329          | 371     |
| Profit / (loss) deferred on new transactions          | <b>42</b>             | 53      | 76      | 282          | 192     |
| (Profit) / loss recognized in the income statement    | <b>(67)</b>           | (248)   | (79)    | (368)        | (199)   |
| Foreign currency translation                          | <b>(4)</b>            | 13      | 5       | 3            | (13)    |
| <b>Reserve balance at the end of the period</b>       | <b>245</b>            | 274     | 351     | 245          | 351     |

### **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 0.8 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 nine 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 nine months of 2018 were not material. Assets and liabilities transferred from Level 1 to Level 2 during the first nine months of 2018 were also not material.

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

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

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

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

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

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

|   | Fair value     |             | Valuation technique(s) | Significant unobservable input(s) <sup>1</sup> | 30.9.18   |  |  |
|---|----------------|-------------|------------------------|--|---|--|--|
|   | Assets         | Liabilities |                        |  | low   | high                                   | weighted average                             |
| <i>CHF billion</i>  | <b>30.9.18</b> | 31.12.17    | <b>30.9.18</b>         | 31.12.17                                       |   |  |  |
| <b>Financial assets and liabilities at fair value held for trading and Financial assets at fair value</b> |                |             |                        |  |   |  |  |
| <i>Corporate and municipal bonds</i>  | <b>0.6</b>     | 0.6         | <b>0.1</b>             | 0.0  | Relative value to market comparable                                   | Bond price equivalent                  | <b>0 134</b>                                 |
| <i>Traded loans, loans mandatorily at fair value, loan commitments and guarantees</i>                     | <b>3.3</b>     | 1.7         | <b>0.0</b>             | 0.0  | Relative value to market comparable<br>Discounted expected cash flows | Loan price equivalent<br>Credit spread | <b>0 102</b><br><b>63 513</b><br><b>0 14</b> |



|  |            |     |             |      |  |   |             |            |
|--|------------|-----|-------------|------|--|---|-------------|------------|
|  |            |     |             |      | Market comparable and securitization model | Discount margin                                       |             |            |
| <i>Auction rate securities</i> <sup>4</sup>                              | <b>1.8</b> |     | <b>0.0</b>  |      | Relative value to market comparable        | Bond price equivalent                                 | <b>77</b>   | <b>99</b>  |
| <i>Investment fund units</i> <sup>5</sup>                                | <b>0.6</b> | 0.7 | <b>0.0</b>  | 0.0  | Relative value to market comparable        | Net asset value                                       |             |            |
| <i>Equity instruments</i> <sup>5</sup>                                   | <b>0.7</b> | 0.5 | <b>0.1</b>  | 0.1  | Relative value to market comparable        | Price   |             |            |
| <b>Debt issued designated at fair value</b> <sup>6</sup>                 |            |     | <b>10.1</b> | 10.9 |  |   |             |            |
| <b>Other financial liabilities designated at fair value</b> <sup>6</sup> |            |     | <b>0.6</b>  | 1.9  |  |   |             |            |
| <b>Derivative financial instruments</b>                                  |            |     |             |      |  |   |             |            |
| <i>Interest rate contracts</i>   | <b>0.5</b> | 0.1 | <b>0.3</b>  | 0.2  | Option model                               | Volatility of interest rates <sup>7</sup>             | <b>46</b>   | <b>78</b>  |
| <i>Credit derivative contracts</i>                                       | <b>0.5</b> | 0.5 | <b>0.6</b>  | 0.6  | Discounted expected cash flows             | Credit spreads  | <b>3</b>    | <b>266</b> |
|  |            |     |             |      |  | Bond price equivalent                                 | <b>0</b>    | <b>99</b>  |
| <i>Equity / index contracts</i>  | <b>0.6</b> | 0.7 | <b>1.4</b>  | 1.9  | Option model                               | Equity dividend yields                                | <b>0</b>    | <b>12</b>  |
|  |            |     |             |      |  | Volatility of equity stocks, equity and other indices | <b>3</b>    | <b>77</b>  |
|  |            |     |             |      |  | Equity-to-FX correlation                              | <b>(45)</b> | <b>71</b>  |
|  |            |     |             |      |  | Equity-to-equity correlation                          | <b>(50)</b> | <b>97</b>  |

1 The ranges of significant unobservable inputs are represented in points, percentages and basis points (e.g., 100 points would be 100% of par). 2 Weighted averages are provided for non-derivative financial assets and liabilities calculated by weighting inputs based on the fair values of the respective instruments. Weighted averages are not provided for derivative contracts as this would not be meaningful. 3 Comparative period information is provided for financial assets and liabilities that were formerly classified as available for sale under IAS 39 and have been reclassified to Financial assets and liabilities held for trading upon adoption of IFRS 9 on 1 January 2018. Refer to Note 18 for more information. 4 Comparative period information is provided 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 18 for more information. 5 The range of inputs is not disclosed due to the dispersion of values given the diversity of investments. 6 Valuation techniques, significant unobservable inputs and the respective input ranges are disclosed in Note 18.

fair value and Other financial liabilities designated at fair value, which are primarily comprised of over are the same as the equivalent derivative or structured financing instruments presented elsewhere in March 2018, the range of inputs reported for this significant unobservable input is based on normal v updated to basis points. Log-normal volatility with the unit as points was reported previously. Prior-pe restated to reflect this change in presentation.

**Note 9 Fair value measurement (continued)****e) Level 3 instruments: sensitivity to changes in unobservable input assumptions**

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

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

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

|   | <b>30.9.18</b>   |                    | 30.6.18   |             | 31.12.17  |             |
|---|------------------|--------------------|-----------|-------------|-----------|-------------|
|   | <b>Favorable</b> | <b>Unfavorable</b> | Favorable | Unfavorable | Favorable | Unfavorable |
| <i>CHF million</i>  | <b>changes</b>   | <b>changes</b>     | changes   | changes     | changes   | changes     |
| Traded loans, loans measured at fair value, loan commitments and guarantees | <b>91</b>        | <b>(16)</b>        | 89        | (15)        | 79        | (11)        |
| Structured securities financing transactions                                | <b>17</b>        | <b>(12)</b>        | 20        | (15)        | 34        | (34)        |
| Auction rate securities <sup>1</sup>  | <b>89</b>        | <b>(89)</b>        | 92        | (92)        |           |             |
|   | <b>30</b>        | <b>(25)</b>        | 31        | (26)        | 19        | (15)        |

|  |            |              |     |       |     |       |
|--|------------|--------------|-----|-------|-----|-------|
| Asset-backed securities                    |            |              |     |       |     |       |
| Equity instruments                         | <b>185</b> | <b>(123)</b> | 182 | (115) | 79  | (53)  |
| Interest rate derivative contracts, net    | <b>12</b>  | <b>(49)</b>  | 12  | (37)  | 13  | (26)  |
| Credit derivative contracts, net           | <b>31</b>  | <b>(35)</b>  | 40  | (35)  | 64  | (99)  |
| Foreign exchange derivative contracts, net | <b>8</b>   | <b>(5)</b>   | 6   | (3)   | 12  | (6)   |
| Equity / index derivative contracts, net   | <b>184</b> | <b>(198)</b> | 212 | (228) | 190 | (193) |
| Other                                      | <b>19</b>  | <b>(19)</b>  | 21  | (21)  | 13  | (13)  |
| <b>Total</b>                               | <b>666</b> | <b>(572)</b> | 704 | (586) | 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 18 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.

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

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

| <i>CHF billion</i>   | <b>Balance<br/>as of 31<br/>December<br/>2016</b> | Total gains / (losses)<br>included in<br>comprehensive<br>income    |   |            | Purchases    | Sales      | Issuances    | Settlements | Transfers<br>into<br>Level 3 |
|--|---|---|---|------------|--------------|------------|--------------|-------------|------------------------------|
|  |   | Net<br>gains /<br>(losses)<br>included<br>in<br>income <sup>1</sup> | Net<br>Level 3<br>instruments<br>held at the<br>end of the<br>reporting<br>period |            |              |            |              |             |                              |
| <b>Financial<br/>assets at fair<br/>value held for<br/>trading</b>                             | <b>1.7</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.5</b> | <b>(2.4)</b> | <b>2.2</b> | <b>0.0</b>   | <b>0.3</b>  |                              |
| <i>of which:</i>   |   |   |   |            |              |            |              |             |                              |
| <i>Corporate and<br/>municipal bonds</i>   | <i>0.6</i>  | <i>0.0</i>  | <i>0.0</i>  | <i>0.3</i> | <i>(0.4)</i> | <i>0.0</i> | <i>0.0</i>   | <i>0.1</i>  |                              |
| <i>Loans</i>   | <i>0.7</i>  | <i>0.1</i>  | <i>0.0</i>  | <i>0.0</i> | <i>(1.8)</i> | <i>2.2</i> | <i>0.0</i>   | <i>0.0</i>  |                              |
| <i>Investment fund<br/>units</i>   | <i>0.1</i>  | <i>0.0</i>  | <i>0.0</i>  | <i>0.0</i> | <i>0.0</i>   | <i>0.0</i> | <i>0.0</i>   | <i>0.0</i>  |                              |
| <i>Other</i>   | <i>0.4</i>  | <i>0.0</i>  | <i>0.0</i>  | <i>0.1</i> | <i>(0.1)</i> | <i>0.0</i> | <i>0.0</i>   | <i>0.1</i>  |                              |
| <b>Financial<br/>assets at fair<br/>value not held<br/>for trading</b>                         | <b>2.1</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b> | <b>0.0</b>   | <b>0.3</b> | <b>(0.8)</b> | <b>0.1</b>  |                              |
| <i>of which:</i>   |   |   |   |            |              |            |              |             |                              |
| <i>Loans (including<br/>structured loans)</i>  | <i>1.2</i>  | <i>0.1</i>  | <i>0.1</i>  | <i>0.0</i> | <i>0.0</i>   | <i>0.0</i> | <i>(0.7)</i> | <i>0.0</i>  |                              |
| <i>Auction rate<br/>securities<sup>3</sup></i>   |   |   |   |            |              |            |              |             |                              |
| <i>Equity<br/>instruments</i>  |   |   |   |            |              |            |              |             |                              |
| <i>Other</i>   | <i>0.9</i>  | <i>(0.1)</i>  | <i>(0.1)</i>  | <i>0.0</i> | <i>0.0</i>   | <i>0.3</i> | <i>(0.1)</i> | <i>0.1</i>  |                              |
| <b>Financial<br/>assets<br/>measured at<br/>fair value<br/>through other<br/>comprehensive</b> | <b>0.5</b>  | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b> | <b>0.0</b>   | <b>0.0</b> | <b>0.0</b>   | <b>0.1</b>  |                              |

**income****Derivative  
financial  
instruments –****assets**

|  |            |              |              |            |            |            |              |            |
|--|------------|--------------|--------------|------------|------------|------------|--------------|------------|
|  | <b>2.5</b> | <b>(0.2)</b> | <b>(0.3)</b> | <b>0.0</b> | <b>0.0</b> | <b>0.7</b> | <b>(1.0)</b> | <b>0.2</b> |
|--|------------|--------------|--------------|------------|------------|------------|--------------|------------|

*of which:*

|                                    |     |       |       |     |     |     |       |     |
|------------------------------------|-----|-------|-------|-----|-----|-----|-------|-----|
| <i>Credit derivative contracts</i> | 1.3 | (0.2) | (0.2) | 0.0 | 0.0 | 0.0 | (0.4) | 0.0 |
|------------------------------------|-----|-------|-------|-----|-----|-----|-------|-----|

|                                 |     |       |       |     |     |     |       |     |
|---------------------------------|-----|-------|-------|-----|-----|-----|-------|-----|
| <i>Equity / index contracts</i> | 0.7 | (0.1) | (0.1) | 0.0 | 0.0 | 0.6 | (0.4) | 0.1 |
|---------------------------------|-----|-------|-------|-----|-----|-----|-------|-----|

|              |     |     |       |     |     |     |       |     |
|--------------|-----|-----|-------|-----|-----|-----|-------|-----|
| <i>Other</i> | 0.5 | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 | (0.2) | 0.0 |
|--------------|-----|-----|-------|-----|-----|-----|-------|-----|

**Derivative  
financial  
instruments –****liabilities**

|  |            |            |              |            |            |            |              |            |
|--|------------|------------|--------------|------------|------------|------------|--------------|------------|
|  | <b>4.0</b> | <b>0.1</b> | <b>(0.1)</b> | <b>0.0</b> | <b>0.0</b> | <b>0.4</b> | <b>(0.9)</b> | <b>0.2</b> |
|--|------------|------------|--------------|------------|------------|------------|--------------|------------|

*of which:*

|                                    |     |     |       |     |     |     |       |     |
|------------------------------------|-----|-----|-------|-----|-----|-----|-------|-----|
| <i>Credit derivative contracts</i> | 1.5 | 0.0 | (0.1) | 0.0 | 0.0 | 0.1 | (0.5) | 0.0 |
|------------------------------------|-----|-----|-------|-----|-----|-----|-------|-----|

|                                 |     |     |     |     |     |     |       |     |
|---------------------------------|-----|-----|-----|-----|-----|-----|-------|-----|
| <i>Equity / index contracts</i> | 1.9 | 0.1 | 0.1 | 0.0 | 0.0 | 0.3 | (0.3) | 0.1 |
|---------------------------------|-----|-----|-----|-----|-----|-----|-------|-----|

|              |     |     |       |     |     |     |       |     |
|--------------|-----|-----|-------|-----|-----|-----|-------|-----|
| <i>Other</i> | 0.6 | 0.0 | (0.1) | 0.0 | 0.0 | 0.1 | (0.1) | 0.1 |
|--------------|-----|-----|-------|-----|-----|-----|-------|-----|

**Debt issued  
designated at  
fair value**

|  |            |            |            |            |            |            |              |            |
|--|------------|------------|------------|------------|------------|------------|--------------|------------|
|  | <b>9.7</b> | <b>1.0</b> | <b>0.8</b> | <b>0.0</b> | <b>0.0</b> | <b>3.8</b> | <b>(3.3)</b> | <b>0.6</b> |
|--|------------|------------|------------|------------|------------|------------|--------------|------------|

**Other financial  
liabilities  
designated at  
fair value**

|  |            |            |            |            |            |            |              |            |
|--|------------|------------|------------|------------|------------|------------|--------------|------------|
|  | <b>1.3</b> | <b>0.1</b> | <b>0.0</b> | <b>0.0</b> | <b>0.0</b> | <b>1.3</b> | <b>(0.7)</b> | <b>0.0</b> |
|--|------------|------------|------------|------------|------------|------------|--------------|------------|

1 Net gains / (losses) included in comprehensive income are comprised of Net interest income, Other changes on financial instruments and Other income. 2 Total Level 3 assets as of 30 September 2018: CHF 9.5 billion; 31 December 2017: CHF 5.5 billion). Total Level 3 liabilities as of 30 September (30 June 2018: CHF 13.7 billion; 31 December 2017: CHF 15.7 billion). 3 Comparative period information that were measured at amortized cost prior to the adoption of IFRS 9. Refer to Note 18 for more information.

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

| Balance<br>as of 31<br>December<br>2017 | Reclassifi-<br>cations<br>and remeasure-<br>ments upon<br>adoption of<br>IFRS 9 | Balance<br>as of<br>January<br>1<br>2018 | Total gains / (losses)<br>included in<br>comprehensive<br>income    |   | Purchases  | Sales        | Issuances  | Settlements  |
|---|---|--|---|---|------------|--------------|------------|--------------|
|   |   |  | Net<br>gains /<br>(losses)<br>included<br>in<br>income <sup>1</sup> | of which:<br>related to<br>Level 3<br>instruments<br>held at the<br>end of the<br>reporting<br>period |            |              |            |              |
| <b>2.0</b>                              | <b>0.4</b>  | <b>2.4</b>                               | <b>(0.4)</b>  | <b>(0.4)</b>  | <b>1.6</b> | <b>(5.5)</b> | <b>3.8</b> | <b>0.0</b>   |
| 0.6                                     |   | 0.6                                      | (0.1)   | (0.1)   | 0.5        | (0.8)        | 0.0        | 0.0          |
| 0.5                                     | 0.4   | 0.9                                      | 0.0   | 0.0   | 0.6        | (4.2)        | 3.8        | 0.0          |
| 0.6                                     |   | 0.6                                      | (0.2)   | (0.1)   | 0.2        | (0.1)        | 0.0        | 0.0          |
| 0.3                                     |   | 0.3                                      | 0.0   | 0.0   | 0.3        | (0.4)        | 0.0        | 0.0          |
| <b>1.4</b>                              | <b>2.9</b>  | <b>4.3</b>                               | <b>0.1</b>  | <b>0.1</b>  | <b>1.5</b> | <b>(1.3)</b> | <b>0.0</b> | <b>0.0</b>   |
| 0.8                                     | 0.6   | 1.3                                      | (0.2)   | (0.1)   | 1.2        | (0.6)        | 0.0        | 0.0          |
|   | 1.8   | 1.8                                      | 0.1   | 0.1   | 0.0        | (0.3)        | 0.0        | 0.0          |
|   | 0.4   | 0.4                                      | 0.1   | 0.1   | 0.2        | (0.2)        | 0.0        | 0.0          |
| 0.7                                     | 0.1   | 0.8                                      | 0.0   | 0.0   | 0.1        | (0.3)        | 0.0        | 0.0          |
| <b>0.5</b>                              | <b>(0.5)</b>  |  |   |   |            |              |            |              |
| <b>1.5</b>                              |   | <b>1.5</b>                               | <b>(0.3)</b>  | <b>(0.3)</b>  | <b>0.0</b> | <b>0.0</b>   | <b>0.9</b> | <b>(0.9)</b> |
| 0.5                                     |   | 0.5                                      | 0.0   | 0.0   | 0.0        | 0.0          | 0.0        | (0.1)        |
| 0.7                                     |   | 0.7                                      | (0.1)   | (0.1)   | 0.0        | 0.0          | 0.7        | (0.7)        |
| 0.3                                     |   | 0.3                                      | (0.2)   | (0.2)   | 0.0        | 0.0          | 0.2        | (0.1)        |
| <b>2.8</b>                              | <b>0.0</b>  | <b>2.8</b>                               | <b>(0.4)</b>  | <b>(0.4)</b>  | <b>0.0</b> | <b>0.0</b>   | <b>1.2</b> | <b>(1.0)</b> |
| 0.6                                     |   | 0.6                                      | 0.0   | 0.0   | 0.0        | 0.0          | 0.0        | (0.1)        |
| 1.9                                     |   | 1.9                                      | (0.3)   | (0.2)   | 0.0        | 0.0          | 0.9        | (0.9)        |
| 0.3                                     | 0.0   | 0.3                                      | (0.2)   | (0.2)   | 0.0        | 0.0          | 0.3        | 0.0          |
| <b>10.9</b>                             |   | <b>10.9</b>                              | <b>0.7</b>  | <b>0.3</b>  | <b>0.0</b> | <b>0.0</b>   | <b>5.0</b> | <b>(3.6)</b> |
| <b>1.9</b>                              |   | <b>1.9</b>                               | <b>0.0</b>  | <b>0.0</b>  | <b>0.0</b> | <b>0.0</b>   | <b>0.9</b> | <b>(2.1)</b> |





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

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

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

Assets transferred into and out of Level 3 totaled CHF 1.5 billion and CHF 0.5 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 4.6 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**

|   | <b>30.9.18</b>        |                   | 30.6.18        |            | 31.12.17       |            |
|---|-----------------------|-------------------|----------------|------------|----------------|------------|
|   | <b>Carrying value</b> | <b>Fair value</b> | Carrying value | Fair value | Carrying value | Fair value |
| <i>CHF billion</i>                                    |                       |                   |                |            |                |            |
| <b>Assets</b>   |                       |                   |                |            |                |            |
| Cash and balances at central banks                    | <b>92.6</b>           | <b>92.6</b>       | 102.3          | 102.3      | 87.8           | 87.8       |
| Loans and advances to banks                           | <b>15.3</b>           | <b>15.3</b>       | 15.5           | 15.5       | 13.7           | 13.7       |
| Receivables from securities financing transactions    | <b>82.0</b>           | <b>82.0</b>       | 76.4           | 76.4       | 89.6           | 89.6       |
| Cash collateral receivables on derivative instruments | <b>21.4</b>           | <b>21.4</b>       | 24.9           | 24.9       | 23.4           | 23.4       |
| Loans and advances to customers                       | <b>320.2</b>          | <b>320.3</b>      | 320.6          | 321.1      | 320.7          | 322.1      |
| Other financial assets measured at amortized cost     | <b>20.7</b>           | <b>20.4</b>       | 21.1           | 20.8       | 36.9           | 36.8       |
| <b>Liabilities</b>                                    |                       |                   |                |            |                |            |
| Amounts due to banks                                  | <b>10.1</b>           | <b>10.1</b>       | 10.2           | 10.2       | 7.5            | 7.5        |
| Payables from securities financing transactions       | <b>10.8</b>           | <b>10.8</b>       | 10.1           | 10.1       | 17.0           | 17.0       |
| Cash collateral payables on derivative instruments    | <b>27.6</b>           | <b>27.6</b>       | 31.8           | 31.8       | 30.2           | 30.2       |

|  |              |              |       |       |       |       |
|--|--------------|--------------|-------|-------|-------|-------|
| Customer deposits                                      | <b>404.9</b> | <b>404.9</b> | 407.2 | 407.2 | 412.4 | 412.4 |
| Funding from UBS Group AG and its subsidiaries         | <b>38.2</b>  | <b>38.6</b>  | 38.8  | 39.5  | 34.7  | 36.4  |
| Debt issued measured at amortized cost                 | <b>96.0</b>  | <b>98.5</b>  | 98.9  | 100.7 | 104.8 | 107.0 |
| Other financial liabilities measured at amortized cost | <b>6.8</b>   | <b>6.8</b>   | 7.2   | 7.2   | 37.1  | 37.1  |

The fair values included in the table above were calculated for disclosure purposes only. The fair value valuation techniques and assumptions relate only to the fair value of UBS's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimation, and therefore such fair value disclosures cannot necessarily be compared from one financial institution to another.

**Note 10 Derivative instruments****a) Derivative instruments**

|   |  | <b>Notional<br/>values</b>  |   | <b>Notional<br/>values</b>   |  |
|---|--|---|---|--|--|
|   | <b>Derivative<br/>financial<br/>assets</b> | <b>related to<br/>derivative<br/>financial<br/>assets<sup>3</sup></b> | <b>Derivative<br/>financial<br/>liabilities</b> | <b>related to<br/>derivative<br/>financial<br/>liabilities<sup>3</sup></b> | <b>Other<br/>notional<br/>values<sup>4</sup></b> |
| <i>As of 30.9.18, CHF billion</i>   |  |   |   |  |  |
| <b>Derivative financial instruments<sup>1,2</sup></b>   |  |   |   |  |  |
| Interest rate contracts   | <b>35.1</b>                                | <b>1,124</b>  | <b>31.2</b>                                     | <b>1,099</b>   | <b>10,994</b>                                    |
| Credit derivative contracts   | <b>2.2</b>                                 | <b>80</b>   | <b>3.1</b>                                      | <b>77</b>  | <b>0</b>   |
| Foreign exchange contracts  | <b>49.8</b>                                | <b>2,672</b>  | <b>48.6</b>                                     | <b>2,545</b>   | <b>1</b>   |
| Equity / index contracts  | <b>25.2</b>                                | <b>440</b>  | <b>28.6</b>                                     | <b>560</b>   | <b>107</b>                                       |
| Commodity contracts   | <b>1.6</b>                                 | <b>39</b>   | <b>1.7</b>                                      | <b>37</b>  | <b>9</b>   |
| Unsettled purchases of non-derivative financial instruments <sup>5</sup>                        | <b>0.2</b>                                 | <b>27</b>   | <b>0.2</b>                                      | <b>21</b>  |  |
| Unsettled sales of non-derivative financial instruments <sup>5</sup>                            | <b>0.3</b>                                 | <b>34</b>   | <b>0.2</b>                                      | <b>23</b>  |  |
| <b>Total derivative financial instruments, based on IFRS netting<sup>6</sup></b>                | <b>114.2</b>                               | <b>4,416</b>  | <b>113.6</b>                                    | <b>4,362</b>   | <b>11,111</b>                                    |
| Further netting potential not recognized on the balance sheet <sup>7</sup>                      | <b>(101.2)</b>                             |   | <b>(97.7)</b>                                   |  |  |
| <i>of which: netting of recognized financial liabilities / assets</i>                           | <b>(83.0)</b>                              |   | <b>(83.0)</b>                                   |  |  |
| <i>of which: netting with collateral received / pledged</i>                                     | <b>(18.2)</b>                              |   | <b>(14.7)</b>                                   |  |  |
| <b>Total derivative financial instruments, after consideration of further netting potential</b> | <b>13.1</b>                                |   | <b>15.9</b>                                     |  |  |
| <i>As of 30.6.18, CHF billion</i>   |  |   |   |  |  |
| <b>Derivative financial instruments<sup>1,2</sup></b>   |  |   |   |  |  |

|   |         |       |         |       |        |
|---|---------|-------|---------|-------|--------|
| Interest rate contracts   | 38.8    | 1,169 | 34.0    | 1,093 | 11,322 |
| Credit derivative contracts   | 2.1     | 81    | 3.2     | 83    | 0      |
| Foreign exchange contracts  | 53.7    | 2,736 | 53.6    | 2,588 | 1      |
| Equity / index contracts  | 24.9    | 446   | 26.5    | 530   | 101    |
| Commodity contracts   | 1.6     | 44    | 1.4     | 39    | 11     |
| Unsettled purchases of non-derivative financial instruments <sup>5</sup>                        | 0.2     | 26    | 0.2     | 18    |        |
| Unsettled sales of non-derivative financial instruments <sup>5</sup>                            | 0.3     | 31    | 0.3     | 20    |        |
| <b>Total derivative financial instruments, based on IFRS netting<sup>6</sup></b>                | 121.6   | 4,533 | 119.2   | 4,371 | 11,435 |
| Further netting potential not recognized on the balance sheet <sup>7</sup>                      | (106.6) |       | (103.1) |       |        |
| <i>of which: netting of recognized financial liabilities / assets</i>                           | (87.4)  |       | (87.4)  |       |        |
| <i>of which: netting with collateral received / pledged</i>                                     | (19.2)  |       | (15.7)  |       |        |
| <b>Total derivative financial instruments, after consideration of further netting potential</b> | 15.1    |       | 16.2    |       |        |
| <i>As of 31.12.17, CHF billion</i>  |         |       |         |       |        |
| <b>Derivative financial instruments<sup>1</sup></b>   |         |       |         |       |        |
| Interest rate contracts   | 44.0    | 1,142 | 38.4    | 1,044 | 10,462 |
| Credit derivative contracts   | 2.8     | 92    | 3.8     | 98    | 1      |
| Foreign exchange contracts  | 47.1    | 2,389 | 45.5    | 2,193 | 0      |
| Equity / index contracts  | 22.2    | 380   | 26.7    | 487   | 83     |
| Commodity contracts   | 1.7     | 33    | 1.6     | 37    | 8      |
| Unsettled purchases of non-derivative financial instruments <sup>5</sup>                        | 0.1     | 12    | 0.1     | 11    |        |
| Unsettled sales of non-derivative financial instruments <sup>5</sup>                            | 0.1     | 15    | 0.1     | 9     |        |
| <b>Total derivative financial instruments,</b>  | 118.2   | 4,063 | 116.1   | 3,878 | 10,555 |

**based on IFRS  
netting<sup>6</sup>**

|  |         |        |
|--|---------|--------|
| Further netting potential<br>not recognized on the<br>balance sheet <sup>7</sup> | (104.2) | (98.5) |
| <i>of which: netting of<br/>recognized financial<br/>liabilities / assets</i>    | (83.5)  | (83.5) |
| <i>of which: netting with<br/>collateral received /<br/>pledged</i>              | (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 September 2018 include CHF 0.0 billion related to derivative loan commitments (30 June 2018: CHF 0.0 billion; 31 December 2017: CHF 0.0 billion). No notional amounts related to these commitments are included in this table but they are disclosed within Note 15 under Loan commitments. 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 September 2018 or 30 June 2018. No notional amounts related to these instruments are included in this table, but they are disclosed within Note 15 under Forward starting transactions. 3 In cases where derivative financial instruments are presented on a net basis on the balance sheet, the respective notional values of the netted derivative financial instruments are still presented on a gross basis. 4 Other notional values relate to derivatives that are cleared through either a central counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivative instruments and was not material for all periods presented. 5 Changes in the fair value of purchased and sold non-derivative financial instruments between trade date and settlement date are recognized as derivative financial instruments. 6 Financial assets and liabilities are presented net on the balance sheet if UBS has the unconditional and legally enforceable right to offset the recognized amounts, both in the normal course of business and in the event of default, bankruptcy or insolvency of the entity and all of the counterparties, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. 7 Reflects the netting potential in accordance with enforceable master netting and similar arrangements where not all criteria for a net presentation on the balance sheet have been met. Refer to "Note 24 Offsetting financial assets and financial liabilities" in the "Consolidated financial statements" section of the Annual Report 2017 for more information.

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

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

|  | <b>Receivables Payables</b> |                | Receivables Payables |         | Receivables Payables |          |
|--|-----------------------------|----------------|----------------------|---------|----------------------|----------|
| <i>CHF billion</i>   | <b>30.9.18</b>              | <b>30.9.18</b> | 30.6.18              | 30.6.18 | 31.12.17             | 31.12.17 |
| Cash collateral on derivative instruments, based on IFRS netting <sup>1</sup>                      | <b>21.4</b>                 | <b>27.6</b>    | 24.9                 | 31.8    | 23.4                 | 30.2     |
| Further netting potential not recognized on the balance sheet <sup>2</sup>                         | <b>(11.6)</b>               | <b>(14.2)</b>  | (13.0)               | (15.5)  | (12.5)               | (17.4)   |
| <i>of which: netting of recognized financial liabilities / assets</i>                              | <b>(10.8)</b>               | <b>(13.2)</b>  | (12.5)               | (14.5)  | (11.7)               | (16.3)   |
| <i>of which: netting with collateral received / pledged</i>  | <b>(0.8)</b>                | <b>(1.1)</b>   | (0.5)                | (1.0)   | (0.7)                | (1.2)    |
| <b>Cash collateral on derivative instruments, after consideration of further netting potential</b> | <b>9.9</b>                  | <b>13.4</b>    | 11.9                 | 16.4    | 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 the Annual Report 2017 for more information.

**Note 11 Other assets and liabilities**

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

| <i>CHF million</i>   | <b>30.9.18</b> | 30.6.18 | 31.12.17 |
|--|----------------|---------|----------|
| Prime brokerage receivables <sup>1</sup>                       |                |         | 19,080   |
| Debt securities  | <b>11,827</b>  | 12,241  | 9,166    |
| <i>of which: government bills / bonds</i>                      | <b>9,058</b>   | 9,787   | 6,465    |
| Loans to financial advisors <sup>2</sup>                       | <b>3,294</b>   | 3,394   | 3,118    |
| Fee- and commission-related receivables                        | <b>1,639</b>   | 1,747   | 1,748    |
| Finance lease receivables                                      | <b>1,109</b>   | 1,076   | 1,059    |
| Settlement and clearing accounts                               | <b>779</b>     | 448     | 716      |
| Accrued interest income  | <b>710</b>     | 669     | 578      |
| Other  | <b>1,324</b>   | 1,496   | 1,470    |
| <b>Total other financial assets measured at amortized cost</b> | <b>20,682</b>  | 21,072  | 36,935   |

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 18 for more information. 2 Related to financial advisors in the US and Canada.

**b) Other non-financial assets**

| <i>CHF million</i>                                     | <b>30.9.18</b> | 30.6.18 | 31.12.17 |
|--|----------------|---------|----------|
| Precious metals and other physical commodities         | <b>4,035</b>   | 3,975   | 4,563    |
| Bail deposit <sup>1</sup>                              | <b>1,302</b>   | 1,320   | 1,337    |
| Prepaid expenses                                       | <b>775</b>     | 795     | 819      |
| Net defined benefit pension and post-employment assets | <b>32</b>      | 61      | 0        |
| VAT and other tax receivables                          | <b>271</b>     | 304     | 292      |
| Properties and other non-current assets held for sale  | <b>84</b>      | 65      | 95       |
| Other  | <b>374</b>     | 436     | 251      |
| <b>Total other non-financial assets</b>                | <b>6,873</b>   | 6,956   | 7,358    |

1 Refer to item 1 in Note 14b for more information.

**Note 11 Other assets and liabilities (continued)****c) Other financial liabilities measured at amortized cost**

| <i>CHF million</i>  | <b>30.9.18</b> | 30.6.18 | 31.12.17 |
|---|----------------|---------|----------|
| Prime brokerage payables <sup>1</sup>                               |                |         | 29,646   |
| Other accrued expenses  | <b>1,860</b>   | 1,884   | 2,105    |
| Accrued interest expenses   | <b>1,156</b>   | 1,084   | 1,533    |
| Settlement and clearing accounts                                    | <b>1,227</b>   | 1,239   | 1,380    |
| Other   | <b>2,592</b>   | 2,981   | 2,468    |
| <b>Total other financial liabilities measured at amortized cost</b> | <b>6,836</b>   | 7,187   | 37,133   |

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 18 for more information.

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

| <i>CHF million</i>  | <b>30.9.18</b> | 30.6.18 | 31.12.17 |
|---|----------------|---------|----------|
| Amounts due under unit-linked investment contracts                | <b>23,499</b>  | 24,913  | 11,523   |
| Structured securities financing transactions                      | <b>8,406</b>   | 6,533   | 375      |
| Over-the-counter debt instruments                                 | <b>2,694</b>   | 5,888   | 4,317    |
| <i>of which: life-to-date own credit (gain) / loss</i>            | <b>(11)</b>    | (41)    | 36       |
| Other   | <b>5</b>       | 8       | 9        |
| <b>Total other financial liabilities designated at fair value</b> | <b>34,605</b>  | 37,342  | 16,223   |

**e) Other non-financial liabilities**

| <i>CHF million</i>   | <b>30.9.18</b> | 30.6.18 | 31.12.17 |
|--|----------------|---------|----------|
| Compensation-related liabilities   | <b>4,028</b>   | 3,601   | 4,909    |
| <i>of which: accrued expenses</i>  | <b>1,984</b>   | 1,578   | 2,372    |
| <i>of which: other deferred compensation plans</i>                           | <b>1,478</b>   | 1,400   | 1,613    |
| <i>of which: net defined benefit pension and post-employment liabilities</i> | <b>566</b>     | 623     | 925      |
| Current and deferred tax liabilities   | <b>667</b>     | 814     | 844      |



|  |              |       |       |
|--|--------------|-------|-------|
| VAT and other tax payables                   | <b>414</b>   | 391   | 378   |
| Deferred income                              | <b>231</b>   | 239   | 150   |
| Other  | <b>105</b>   | 136   | 53    |
| <b>Total other non-financial liabilities</b> | <b>5,446</b> | 5,181 | 6,335 |

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

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

|  |                |         |          |
|--|----------------|---------|----------|
| <i>CHF million</i>                                     | <b>30.9.18</b> | 30.6.18 | 31.12.17 |
| <b>Issued debt instruments</b>                         |                |         |          |
| Equity-linked <sup>1</sup>                             | <b>41,822</b>  | 39,355  | 34,162   |
| Rates-linked   | <b>9,362</b>   | 7,505   | 5,811    |
| Credit-linked  | <b>3,232</b>   | 3,034   | 2,937    |
| Fixed-rate   | <b>4,755</b>   | 4,293   | 3,921    |
| Other  | <b>2,460</b>   | 2,661   | 2,671    |
| <b>Total debt issued designated at fair value</b>      | <b>61,631</b>  | 56,849  | 49,502   |
| <i>of which: life-to-date own credit (gain) / loss</i> | <b>68</b>      | (188)   | 159      |

1 Includes investment fund unit-linked instruments issued.

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

|  |                |         |          |
|--|----------------|---------|----------|
| <i>CHF million</i>   | <b>30.9.18</b> | 30.6.18 | 31.12.17 |
| Certificates of deposit  | <b>9,198</b>   | 12,720  | 23,831   |
| Commercial paper   | <b>30,025</b>  | 28,878  | 23,532   |
| Other short-term debt  | <b>3,973</b>   | 3,730   | 3,590    |
| <b>Short-term debt<sup>1</sup></b>                                     | <b>43,196</b>  | 45,328  | 50,953   |
| Senior unsecured debt  | <b>33,182</b>  | 33,699  | 32,268   |
| Covered bonds  | <b>3,935</b>   | 4,029   | 4,112    |
| Subordinated debt  | <b>7,322</b>   | 7,453   | 8,985    |
| <i>of which: low-trigger loss-absorbing tier 2 capital instruments</i> | <b>6,627</b>   | 6,748   | 8,286    |
| <i>of which: non-Basel III-compliant tier 2 capital instruments</i>    | <b>695</b>     | 705     | 700      |
| Debt issued through the Swiss central mortgage institutions            | <b>8,317</b>   | 8,357   | 8,345    |
| Other long-term debt   | <b>60</b>      | 63      | 87       |
| <b>Long-term debt<sup>2</sup></b>                                      | <b>52,816</b>  | 53,601  | 53,796   |
| <b>Total debt issued measured at amortized cost<sup>3</sup></b>        | <b>96,012</b>  | 98,929  | 104,749  |

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

**Note 14 Provisions and contingent liabilities****a) Provisions**

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

|   |                |         |          |
|---|----------------|---------|----------|
| <i>CHF million</i>  | <b>30.9.18</b> | 30.6.18 | 31.12.17 |
| Provisions recognized under IAS 37                                  | <b>2,815</b>   | 2,973   | 3,051    |
| Provisions for off-balance sheet financial instruments <sup>1</sup> | <b>78</b>      | 76      | 33       |
| Provisions for other credit lines <sup>1</sup>                      | <b>36</b>      | 35      | 0        |
| <b>Total provisions</b>   | <b>2,930</b>   | 3,084   | 3,084    |

<sup>1</sup> Provisions recognized in 2018 relate to exposures in the scope of the expected credit loss requirements of IFRS 9. Refer to Notes 8 and 18 for more information. 2017 provisions for off-balance sheet financial instruments relate to loss provisions recognized under IAS 37.

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

| <i>CHF million</i>  | <b>Operational and similar risks<sup>1</sup></b> | <b>Litigation, regulatory matters<sup>2</sup></b> | <b>Restructuring</b> | <b>Real estate</b> | <b>Employee benefits<sup>5</sup></b> | <b>Other</b> | <b>Total</b> |
|---|--|---|----------------------|--------------------|--------------------------------------|--------------|--------------|
| <b>Balance as of 31 December 2017</b>                     | 43   | 2,444   | 294                  | 125                | 55                                   | 89           | 3,051        |
| <b>Balance as of 30 June 2018</b>                         | 41   | 2,442   | 232                  | 123                | 53                                   | 81           | 2,973        |
| Increase in provisions recognized in the income statement | 5  | 76  | 23                   | 1                  | 2                                    | 17           | <b>124</b>   |
| Release of provisions recognized in the income statement  | 0  | (72)  | (12)                 | (1)                | (2)                                  | 0            | <b>(88)</b>  |
| Provisions used in conformity with designated purpose     | (4)  | (109)   | (36)                 | (6)                | 0                                    | (9)          | <b>(164)</b> |
| Capitalized reinstatement costs                           | 0  | 0   | 0                    | (1)                | 0                                    | 0            | <b>(1)</b>   |
| Foreign currency translation / unwind of                  | 0  | (24)  | (2)                  | (1)                | (1)                                  | 0            | <b>(28)</b>  |

discount

**Balance as of  
30 September  
2018**

|           |              |                        |                        |           |           |              |
|-----------|--------------|------------------------|------------------------|-----------|-----------|--------------|
| <b>42</b> | <b>2,312</b> | <b>205<sup>3</sup></b> | <b>115<sup>4</sup></b> | <b>52</b> | <b>89</b> | <b>2,815</b> |
|-----------|--------------|------------------------|------------------------|-----------|-----------|--------------|

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 37 million as of 30 September 2018 (30 June 2018: CHF 44 million; 31 December 2017: CHF 54 million) and provisions for onerous lease contracts of CHF 164 million as of 30 September 2018 (30 June 2018: CHF 183 million; 31 December 2017: CHF 235 million). 4 Consists of reinstatement costs for leasehold improvements of CHF 79 million as of 30 September 2018 (30 June 2018: CHF 84 million; 31 December 2017: CHF 86 million) and provisions for onerous lease contracts of CHF 36 million as of 30 September 2018 (30 June 2018: CHF 39 million; 31 December 2017: CHF 39 million). 5 Includes provisions for sabbatical and anniversary awards.

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

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

**b) Litigation, regulatory and similar matters**

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

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

could be significant.

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

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

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

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

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

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in the "Provisions" table in Note 14a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, that have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although we therefore cannot provide a numerical estimate of the future losses that could arise from litigation, regulatory and similar matters, we believe that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. For example, the Non-Prosecution Agreement (NPA) described in item 5 of this Note, which we entered into with the US Department of Justice (DOJ), Criminal Division, Fraud Section in connection with our submissions of benchmark interest rates, including, among others, the British Bankers' Association London Interbank Offered Rate (LIBOR), was terminated by the DOJ based on its determination that we had committed a US crime in relation to foreign exchange matters. As a consequence, UBS AG pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, paid a fine and is subject to probation through January 2020. A guilty plea to, or conviction of, a crime could have material consequences for UBS. Resolution of regulatory proceedings may require us to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations, and may permit financial market utilities to limit, suspend or terminate our participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

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

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

|   | <b>Global<br/>Wealth<br/>Manage-<br/>ment</b> | <b>Personal<br/>&amp; Manage-<br/>Corporate<br/>Banking</b> | <b>Asset<br/>&amp; Manage-<br/>ment</b> | <b>Investment<br/>Bank</b> | <b>Services</b> | <b>CC –<br/>Group<br/>ALM</b> | <b>CC –<br/>Non-core<br/>and<br/>Legacy<br/>Portfolio</b> | <b>UBS</b>   |
|---|---|---|---|----------------------------|-----------------|-------------------------------|---|--------------|
| <i>CHF million</i><br><b>Balance as<br/>of 31<br/>December<br/>2017</b> | 555   | 79  | 1                                       | 345                        | 240             | 0                             | 1,224   | 2,444        |
| <b>Balance as<br/>of 30 June<br/>2018</b>                               | 567   | 75  | 0                                       | 333                        | 216             | 0                             | 1,251   | 2,442        |
| Increase in<br>provisions<br>recognized in<br>the income<br>statement   | 31  | 0   | 0                                       | 11                         | 30              | 0                             | 4   | <b>76</b>    |
| Release of<br>provisions<br>recognized in<br>the income<br>statement    | (3)   | 0   | 0                                       | (68)                       | (1)             | 0                             | 0   | <b>(72)</b>  |
| Provisions<br>used in<br>conformity<br>with<br>designated<br>purpose    | (48)  | 0   | 0                                       | 0                          | 0               | 0                             | (60)  | <b>(109)</b> |
| Foreign<br>currency<br>translation /<br>unwind of<br>discount           | (6)   | 0   | 0                                       | (3)                        | 0               | 0                             | (13)  | <b>(24)</b>  |
| <b>Balance as<br/>of 30<br/>September<br/>2018</b>                      | <b>541</b>                                    | <b>75</b>   | <b>0</b>                                | <b>272</b>                 | <b>244</b>      | <b>0</b>                      | <b>1,180</b>  | <b>2,312</b> |

<sup>1</sup> Provisions, if any, for the matters described in this Note are recorded in Global Wealth Management (item 3 and item 4), the Investment Bank (item 7) and Corporate Center –

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



## Note 14 Provisions and contingent liabilities (continued)

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

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

The Swiss Federal Administrative Court ruled in 2016 that, in the administrative assistance proceedings related to a French bulk request, UBS has the right to appeal all final FTA client data disclosure orders. On 30 July 2018, the Swiss Federal Administrative Court granted UBS's appeal by holding the French administrative assistance request inadmissible. The FTA filed a final appeal with the Swiss Federal Supreme Court.

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 started on 8 October 2018 and is scheduled to last until 15 November 2018.

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 September 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.

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

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

*Lawsuits related to contractual representations and warranties concerning mortgages and RMBS:* When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which the representations related or to indemnify certain parties against losses. In 2012, certain RMBS trusts filed an action (Trustee Suit) in the US District Court for the Southern District of New York (SDNY) seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations issued and underwritten by UBS with an original principal balance of approximately USD 2 billion. 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 September 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.

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

### **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 2.8 billion, of which claims with aggregate claimed damages of USD 1.7 billion have been resolved through settlements, arbitration or withdrawal of the claim. The claims have been 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 and a request for permission to appeal that ruling was denied by 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 September 2018 the court denied plaintiffs' motion for class certification.

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 based on plaintiffs' allegation that the loans are not valid. The trial court granted UBS PR's motion for summary judgment and dismissed the action.

In 2014 and 2015, UBS entered into settlements with the Office of the Commissioner of Financial Institutions for the Commonwealth of Puerto Rico (OCFI), the SEC and the Financial Industry Regulatory Authority (FINRA) in relation to their examination of UBS's operations. 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.

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 September 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.

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

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

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

*Foreign exchange-related regulatory matters:* Beginning in 2013 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 2015, 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. UBS has entered into a settlement agreement that would resolve US federal court class actions relating to foreign currency transactions with the defendant banks and persons who transacted in foreign exchange futures contracts and options on such futures. The settlement agreement, which has been approved by the court, 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 exchange transactional services or authorized or permitted the execution of any foreign currency exchange transactional services involving such plan's assets. The complaint asserts claims under ERISA. In July 2018, the Second Circuit affirmed the dismissal of the case with prejudice.

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 alleged 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 were also filed 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 asserted claims under the antitrust laws and the Commodity Exchange Act (CEA), and other claims. In July 2018, the court in New York granted UBS's motions to dismiss amended complaints in the putative class actions relating to gold and silver. In 2017, the court granted UBS's motion to dismiss the platinum and palladium action. Plaintiffs in the platinum and palladium action subsequently filed an amended complaint that did not allege claims against UBS.



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

*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 UK Financial Services Authority (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 2018, the Second Circuit denied the petition to

appeal of the class of USD lenders.

*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 a federal antitrust claim, 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.

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

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

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

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

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



**Note 15 Guarantees, commitments and forward starting transactions**

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

| <i>CHF million</i>                               | <b>30.9.18</b>                |                                   |                           |               | <b>30.6.18</b> |                               |                           |            |
|--|-------------------------------|-----------------------------------|---------------------------|---------------|----------------|-------------------------------|---------------------------|------------|
|  | <b>Gross</b>                  |                                   | <b>Sub-participations</b> | <b>Net</b>    | <b>Gross</b>   |                               | <b>Sub-participations</b> | <b>Net</b> |
|  | <b>Measured at fair value</b> | <b>Not measured at fair value</b> |                           |               |                | <b>Measured at fair value</b> |                           |            |
| <b>Total guarantees</b>                          | <b>1,605</b>                  | <b>17,133</b>                     | <b>(2,742)</b>            | <b>15,996</b> | 1,646          | 18,529                        | (2,976)                   | 17,199     |
| <b>Loan commitments</b>                          | <b>4,126</b>                  | <b>29,659</b>                     | <b>(624)</b>              | <b>33,160</b> | 8,558          | 31,009                        | (662)                     | 38,905     |
| <b>Forward starting transactions<sup>1</sup></b> |                               |                                   |                           |               |                |                               |                           |            |
| Reverse repurchase agreements                    | <b>19,803</b>                 | <b>3,814</b>                      |                           |               | 12,014         | 1,508                         |                           |            |
| Securities borrowing agreements                  |                               | <b>19</b>                         |                           |               |                | 38                            |                           |            |
| Repurchase agreements                            | <b>16,098</b>                 | <b>1,000</b>                      |                           |               | 9,522          | 1,346                         |                           |            |

<sup>1</sup> Cash to be paid in the future by either UBS or the counterparty. Upon adoption of IFRS 9 on 1 January 2018, forward starting transactions are presented as measured at fair value through profit or loss. Refer to Note 18 for more information.

**Note 16 Events after the reporting period****Changes to functional and presentation currencies**

Effective 1 October 2018, and as required by IAS 21, The Effects of Changes in Foreign Exchange Rates, the functional currency of UBS Group AG and UBS AG's Head Office in Switzerland has changed from Swiss francs to US dollars, and the functional currency of UBS AG's London Branch operations has changed from British pounds to US dollars. In line with these changes, the presentation currency of UBS Group AG's and UBS AG's consolidated financial statements will change from Swiss francs to US dollars. Prior periods will be restated.

for this presentation currency change, with assets, liabilities and total equity converted to US dollars at historic closing exchange rates prevailing on the respective balance sheet dates, and income and expenses translated at the respective average rates prevailing for the relevant periods. There will be no material changes to prior-period profit and loss or total equity attributable to UBS AG shareholders as a result of this change.

→ **Refer to the “Recent developments” section of the UBS Group AG third quarter 2018 report for more information**

#### Changes in Corporate Center cost allocations to business divisions and Corporate Center segment reporting

Effective 1 January 2019, UBS AG will no longer separately assess the performance of Corporate Center – Non-core and Legacy Portfolio as a result of its substantially reduced size and resource consumption. Following this change, and in line with IFRS 8, Operating Segments, UBS will include the results of Corporate Center – Non-core and Legacy Portfolio with Corporate Center – Services. In addition, in order to align Group and divisional performance, UBS AG will adjust its methodology for allocating Corporate Center expenses, funding costs and balance sheet to the business divisions. Prior-period information will be restated.

→ **Refer to the “Recent developments” section of the UBS Group AG third quarter 2018 report for more information**

#### Increase in stake in UBS Securities China

UBS AG submitted a preliminary application in May 2018 to increase its shareholding in UBS Securities Co. Limited (UBSS) from 24.99% to 51%. The transaction is subject to completion of a share purchase from existing shareholders and regulatory approval. If UBS AG acquires majority ownership, UBS AG is expected to consolidate UBSS and remeasure its current 24.99% holding at fair value, resulting in an estimated loss of CHF 0.3 billion if the disclosed offer prices are accepted.

→ **Refer to the “Recent developments” section of the UBS Group AG third quarter 2018 report for more information**

#### Worldline to acquire SIX Payment Services

On 15 May 2018, SIX and Worldline signed a binding agreement to enter into a strategic partnership in the cards business. Under the agreement, SIX will transfer its existing cards business to Worldline and receive a 27% stake in Worldline. The transaction is currently expected to close in the fourth quarter of 2018. When the transaction closes, UBS AG expects to recognize in its income statement a share of the gain recognized by SIX, proportional to UBS AG’s 17.31% investment in SIX, which is accounted for as an Investment in associate. The gain is estimated at CHF 0.4 billion subject to Worldline’s share price upon closing.

→ **Refer to the “Recent developments” section of the UBS Group AG third quarter 2018 report for more information**



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

**Note 17 Currency translation rates**

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

|         | <b>Spot rate</b> |         |          |         | <b>Average rate<sup>1</sup></b> |         |         |              |         |
|---------|------------------|---------|----------|---------|---------------------------------|---------|---------|--------------|---------|
|         |                  | As of   |          |         | For the quarter ended           |         |         | Year-to-date |         |
|         | <b>30.9.18</b>   | 30.6.18 | 31.12.17 | 30.9.17 | <b>30.9.18</b>                  | 30.6.18 | 30.9.17 | 30.9.18      | 30.9.17 |
| 1 USD   | <b>0.98</b>      | 0.99    | 0.97     | 0.97    | <b>0.98</b>                     | 0.99    | 0.97    | 0.97         | 0.98    |
| 1 EUR   | <b>1.14</b>      | 1.16    | 1.17     | 1.14    | <b>1.14</b>                     | 1.17    | 1.14    | 1.16         | 1.10    |
| 1 GBP   | <b>1.28</b>      | 1.31    | 1.32     | 1.30    | <b>1.28</b>                     | 1.33    | 1.27    | 1.31         | 1.26    |
| 100 JPY | <b>0.86</b>      | 0.89    | 0.86     | 0.86    | <b>0.87</b>                     | 0.90    | 0.87    | 0.88         | 0.88    |

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



## **Note 18 Transition to IFRS 9 as of 1 January 2018**

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

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

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

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

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

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

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

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

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

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

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

#### *Business model assessment*

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

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

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

|  |
|--|
| <b>Critical accounting estimates and judgments</b> |
|--|

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

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

**Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

*Contractual cash flow characteristics*

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

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

**Critical accounting estimates and judgments**

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

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

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

**Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

**Measured at  
amortized  
cost**

A debt financial asset is measured at amortized cost if:

- it is held in a business model that has an objective to hold assets to collect contractual cash flows, and
- the contractual terms give rise to cash flows that are SPPI.

This classification includes:

- cash and balances at central banks
- loans and advances to banks
- cash collateral receivable on securities borrowed
- receivables on reverse repurchase agreements
- cash collateral receivables on derivative instruments
- residential and commercial mortgages
- corporate loans
- secured loans, including Lombard loans, and unsecured loans
- loans to financial advisors
- debt securities held as high-quality liquid assets (HQLA)

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).

The following items are recognized in the income statement:

- Interest income, which is accounted for in accordance with item 3c in this Note
- ECL and reversals
- Foreign exchange translation gains and losses

Upfront fees and direct costs relating to loan origination, refinancing or restructuring as well as to loan commitments – when it is probable that UBS AG will enter into a specific lending relationship – are deferred and amortized over the life of the loan using the EIR method.

When the financial asset at amortized cost is derecognized, the gain or loss is recognized in the income statement.

– fee and lease receivables.

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:

– 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

– the contractual terms give rise to cash flows that are SPPI.

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*.

This classification primarily includes debt securities and certain asset-backed securities held as HQLA for which the contractual cash flows meet the SPPI conditions.

The following items are recognized in the income statement:

– Interest income, which is accounted for in accordance with item 3c in this Note

– ECL and reversals

– Foreign exchange translation gains and losses.

The amounts recognized in the income statement are determined on the same basis as for financial assets measured at amortized cost.



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

**Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

|                          |                                       |   |  |
|--------------------------|---------------------------------------|---|--|
| <b>Measured at FVTPL</b> | Held for trading                      | Financial assets held for trading include:  | Measured at fair value with changes recognized in profit or loss.  |
|                          |                                       | <ul style="list-style-type: none"> <li>– all derivatives with a positive replacement value, except those that are designated as effective hedging instruments</li> <li>– other financial assets acquired principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for actual pattern of short-term profit taking. Included in this category are debt instruments (including those in the form of securities, money market paper and traded corporate and bank loans) and equity instruments.</li> </ul> | Changes in fair value, initial transaction costs and gains and losses realized on disposal or redemption are recognized in <i>Other net income from fair value changes on financial instruments</i> , except interest and dividend income on instruments other than derivatives (refer to item 3c in this Note for more information), interest on derivatives designated as hedging instruments in certain types of hedge accounting relationships and forward points on certain long- and short-duration foreign exchange contracts, which are reported in <i>Net interest income</i> . |
|                          | Mandatorily measured at FVTPL – Other | A financial asset is mandatorily measured at FVTPL if: <ul style="list-style-type: none"> <li>– it is not held in a business model whose objective is to hold assets to collect contractual cash flows or to hold them to collect contractual cash flows and sell, and / or</li> <li>– the contractual terms give rise to cash flows that are not SPPI, and / or</li> <li>– it is not held for trading.</li> </ul>  | Derivative assets are generally presented as <i>Derivative financial instruments</i> , except those exchange-traded and OTC-cleared derivatives that are considered to be settled on a daily basis or qualify for netting and are presented within <i>Cash collateral receivables on derivative instruments</i> .  |
|                          |                                       | The following financial assets are mandatorily measured at FVTPL:   | 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   |

- 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
  - Loans, managed on a fair value basis and hedged with credit derivatives
  - Certain debt securities held as HQLA and managed on a fair value basis
  - 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
  - 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
  - Auction rate securities, for which contractual cash flows do not meet the SPPI conditions because interest may be reset at rates that contain leverage
  - Equity instruments
  - Assets held under unit-linked investment contracts.
- 1a) Significant accounting policies” item 3k in the “Consolidated financial statements” section of the Annual Report 2017 for more information).
- Financial assets held for trading (other than derivatives) are presented as *Financial assets at fair value held for trading*.
- 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 UBS AG’s balance sheet.



**Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

|   |  |   |
|---|--|---|
| <b>Measured at<br/>amortized<br/>cost</b> | <p>This classification includes:</p> <ul style="list-style-type: none"> <li>– Demand and time deposits, retail savings / deposits, amounts payable under repurchase agreements, cash collateral on securities lent, non-structured fixed-rate bonds, subordinated debt, certificates of deposit and covered bonds and obligations against funding from UBS Group AG and its subsidiaries</li> <li>– Cash collateral payables on derivative instruments.</li> </ul> | <p>Measured at amortized cost using the EIR method.</p> <p>Upfront fees and direct costs relating to the issuance or origination of the liability are deferred and amortized over the life of the liability using the EIR method.</p> <p>When the financial liability at amortized cost is derecognized, the gain or loss is recognized in the income statement.</p> <p>Amortized cost liabilities are presented on the balance sheet primarily as <i>Amounts due to banks, Customer deposits, Payables from securities financing transactions, Debt issued measured at amortized cost and Funding from UBS Group AG and its subsidiaries.</i></p> <p>Amounts arising from ETD and certain OTC derivatives cleared through central clearing counterparties that are either considered to be daily settled or qualify for netting (refer to “Note 1a) Significant accounting policies” items 3d and 3j in the “Consolidated financial statements” section of the Annual Report 2017 for more information) are presented within</p> |
|---|--|---|

**Measured at fair value through profit or loss**

|                            |   |   |
|----------------------------|---|---|
| <p>Held for trading</p>    | <p>Financial liabilities held for trading include:</p> <ul style="list-style-type: none"> <li>– All derivatives with a negative replacement value (including certain loan commitments) except those that are designated and effective hedging instruments</li> <li>– Obligations to deliver financial instruments, such as debt and equity instruments, that UBS AG has sold to third parties, but does not own (short positions).</li> </ul>   | <p><i>Cash collateral payables on derivative instruments.</i></p> <p>Measurement of financial liabilities classified at FVTPL follows the same principles as for financial assets classified at FVTPL, except that the amount of change in the fair value of the financial liability that is attributable to changes in UBS AG's own credit risk is presented in OCI.</p>   |
| <p>Designated at FVTPL</p> | <p>UBS AG designated at FVTPL the following financial liabilities:</p> <ul style="list-style-type: none"> <li>– Issued hybrid debt instruments that primarily include equity-linked, credit-linked and rates-linked bonds or notes</li> <li>– Issued debt instruments managed on a fair value basis</li> <li>– Certain payables under repurchase agreements and cash collateral on securities lending agreements that are managed in conjunction with associated reverse repurchase agreements and cash collateral on securities borrowed</li> <li>– Loan commitments that are hedged predominantly with credit derivatives and those managed on a fair value basis</li> <li>– Amounts due under unit-linked investment contracts whose cash flows are linked to financial assets measured at FVTPL and eliminate an accounting mismatch</li> <li>– Brokerage payables, which arise in conjunction with brokerage receivables and are measured at FVTPL to achieve measurement</li> </ul> | <p>Financial liabilities measured at FVTPL are presented as <i>Financial liabilities at fair value held for trading</i> and <i>Other financial liabilities designated at fair value</i>, respectively, except for brokerage payables and debt issued, which are presented as separate sub-totals on UBS AG's balance sheet.</p> <p>Derivative liabilities are generally presented as <i>Derivative financial instruments</i>, except those exchange-traded and OTC-cleared derivatives that are considered to be settled on a daily basis or qualify for netting and are presented within <i>Cash collateral payables on derivative instruments</i>.</p> <p>Bifurcated embedded derivatives are measured at fair value, but are presented on the same balance sheet line as the host contract measured at amortized cost.</p> <p>Derivatives that are designated and effective as hedging instruments are also measured at fair value. The presentation of fair value changes differs depending on the type of hedge relationship (refer to "Note 1a)</p> |

consistency.

Significant accounting policies” item 3k in the “Consolidated financial statements” section of the Annual Report 2017 for more information).

*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.

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

### **Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

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

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

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

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

#### *g. Expected credit losses*

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

#### *Recognition of expected credit losses*

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

ECL are recognized on the following basis:

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

**Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

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

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

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

*Default and credit impairment*

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

An instrument is classified as credit-impaired if the counterparty is defaulted, and / or the instrument is POCI. An instrument is POCI if it has been purchased with a material discount to its carrying amount following a risk event of the issuer or originated with a defaulted counterparty. Once a financial asset is classified as defaulted / credit-impaired (except POCIs), it remains as such unless all past due amounts have been rectified, additional payments have been made on time, the position is not classified as credit-restructured, and there is general evidence of credit recovery. A minimum period of three months is applied whereby most instruments remain in stage 3 for a longer period.

*Measurement of expected credit losses*

IFRS 9 ECL reflect an unbiased, probability-weighted estimate based on either loss expectations resulting from default events over a maximum 12-month period from the reporting date or over the remaining life of a financial instrument. The method used to calculate individual probability-weighted unbiased ECL is based on a combination of the

following principal factors: probability of default (PD), loss given default (LGD) and exposure at default (EAD). PDs and LGDs used in the ECL calculation are point in time (PIT)-based for key portfolios and consider both current conditions and expected cyclical changes. For each instrument or group of instruments, parameter time series are generated consisting of the instruments' PD, LGD and EAD profiles considering the respective period of exposure to credit risk.

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

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

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

## **Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

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

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

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

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

### *Scenarios and scenario weights*

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

To accommodate this requirement, UBS AG uses four different economic scenarios in the ECL calculation: an upside, a baseline, a mild downside and a severe downside scenario. Each scenario is represented by a specific scenario narrative, which is relevant considering the exposure of key portfolios to economic risks, and for which a set of consistent macroeconomic variables is determined. Those variables range from above-trend economic growth to severe recession. A weight is computed for each scenario by using a probabilistic econometric model that considers recent information as well as several decades of historical data. The determined weights constitute the probabilities that the respective set of macroeconomic conditions will occur. The scenarios, including the narratives, the macroeconomic and financial variables and the scenario weights, are further discussed, challenged and potentially refined by a team of UBS-AG internal experts. The baseline scenario is aligned to the economic and market assumptions used for UBS AG business planning purposes.

### *Macroeconomic and other factors*



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

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

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

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

**Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

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

*ECL measurement period*

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

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

*Significant increase in credit risk*

Financial instruments subject to ECL are monitored on an ongoing basis. To determine whether the recognition of a 12-month ECL continues to be appropriate, it is assessed

whether an SICR has occurred since initial recognition of the financial instrument. The assessment criteria include both quantitative and qualitative factors.

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

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

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

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

### SICR thresholds

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

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

**Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

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

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

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

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

**Critical accounting estimates and judgments**

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

– *Determination of a significant increase of credit risk*

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

– *Scenarios, scenario weights and macroeconomic factors*

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

– *ECL measurement period*

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

– *Modeling and management adjustments*

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

## **Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

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

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

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

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

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

### *o. Loan commitments*

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

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

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

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

When a client draws on a commitment, the resulting loan is presented within *Financial assets at fair value held for trading* or within *Financial assets at fair value not held for trading* when the associated loan commitments are measured at fair value through profit or loss, or within *Loans and advances to customers*, when the associated loan commitments are not measured at fair value through profit or loss.

#### *p. Financial guarantee contracts*

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

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

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

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

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

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

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

## **Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

### **18.2 Adoption of IFRS 9**

#### **18.2.1 Governance**

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

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

#### **18.2.2 Retrospective amendments to UBS AG balance sheet presentation**

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

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



- Precious metal positions previously presented in *Trading portfolio assets* are now presented within the new line *Other non-financial assets*.
- *Financial liabilities designated at fair value* have been split into two lines: *Debt issued designated at fair value* and *Other financial liabilities designated at fair value*.
- Obligations of UBS AG from funding received from UBS Group AG or its subsidiaries, previously included within *Due to customers*, are now presented separately within *Funding from UBS Group AG and its subsidiaries*.

**Note 18 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 18.2.3 under *Reclassification and remeasurement of carrying amounts and recognition of ECL upon adoption of IFRS 9*.

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

| <i>CHF million</i>  |            | 31.12.17<br>Former<br>presentation | <b>31.12.17<br/>Revised<br/>presentation</b> |
|---|------------|------------------------------------|--|
| <b>Assets</b>   | References |                                    |  |
| Cash and balances at central banks  |            | 87,775                             | <b>87,775</b>                                |
| Loans and advances to banks (formerly: Due from banks)  |            | 13,693                             | <b>13,693</b>                                |
| Receivables from securities financing transactions (new line)   | 1          |                                    | <b>89,633</b>                                |
| 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                             | <b>23,434</b>                                |
| Loans and advances to customers (formerly: Loans)   | 2          | 321,718                            | <b>320,659</b>                               |
| Financial assets held to maturity (superseded)  | 3          | 9,166                              |  |
| Other financial assets measured at amortized cost (new line)  | 2,3,7      |                                    | <b>36,935</b>                                |
| <b>Total financial assets measured at amortized cost</b>  |            |                                    | <b>572,129</b>                               |
| Financial assets at fair value held for trading (formerly: Trading portfolio assets)                          | 4          | 130,807                            | <b>126,244</b>                               |
| <i>of which: assets pledged as collateral that may be sold or repledged by counterparties</i>                 |            | 35,363                             | <b>35,363</b>                                |

|  |          |                |                |
|--|----------|----------------|----------------|
| Derivative financial instruments<br>(formerly: Positive replacement<br>values)                               |          | 118,229        | <b>118,229</b> |
| Brokerage receivables (new line,<br>formerly included within Other<br>assets)                                |          | n/a            | <b>n/a</b>     |
| Financial assets at fair value not<br>held for trading (new line)  | 5        |                | <b>58,556</b>  |
| Financial assets designated at fair<br>value   | 5        | 58,556         |                |
| <b>Total financial assets<br/>measured at fair value through<br/>profit or loss</b>                          |          |                | <b>303,028</b> |
| Financial assets available for sale<br>(superseded)  | 6        | 8,665          |                |
| <b>Financial assets measured at<br/>fair value through other<br/>comprehensive income (new<br/>line)</b>     | <b>6</b> |                | <b>8,665</b>   |
| Investments in associates  |          | 1,018          | <b>1,018</b>   |
| Property, equipment and software   |          | 7,985          | <b>7,985</b>   |
| Goodwill and intangible assets   |          | 6,398          | <b>6,398</b>   |
| Deferred tax assets  |          | 9,783          | <b>9,783</b>   |
| Other non-financial assets (new<br>line)   | 4,7      |                | <b>7,358</b>   |
| Other assets (superseded)  | 7        | 29,505         |                |
| <b>Total assets</b>  |          | <b>916,363</b> | <b>916,363</b> |
| <b>Liabilities</b>   |          |                |                |
| Amounts due to banks   |          | 7,533          | <b>7,533</b>   |
| Payables from securities financing<br>transactions (new line)  | 8        |                | <b>17,044</b>  |
| Cash collateral on securities lent<br>(newly included in Payables from<br>securities financing transactions) | 8        | 1,789          |                |
| Repurchase agreements (newly<br>included in Payables from<br>securities financing transactions)              | 8        | 15,255         |                |
| Cash collateral payables on<br>derivative instruments  |          | 30,247         | <b>30,247</b>  |
| Customer deposits (formerly: Due<br>to customers)  | 9        | 447,141        | <b>412,392</b> |
| Funding from UBS Group AG and<br>its subsidiaries (new line, formerly<br>included within Due to customers)   | 9        |                | <b>34,749</b>  |
| Debt issued measured at<br>amortized cost  |          | 104,749        | <b>104,749</b> |
| Other financial liabilities measured<br>at amortized cost (new line)   | 11       |                | <b>37,133</b>  |
| <b>Total financial liabilities<br/>measured at amortized cost</b>  |          |                | <b>643,847</b> |

|  |       |         |                |
|--|-------|---------|----------------|
| Financial liabilities at fair value held for trading (formerly: Trading portfolio liabilities)     |       | 30,463  | <b>30,463</b>  |
| Derivative financial instruments (formerly: Negative replacement values)                           |       | 116,134 | <b>116,134</b> |
| Brokerage payables designated at fair value (new line, formerly included within Other liabilities) |       | n/a     | <b>n/a</b>     |
| Financial liabilities designated at fair value (superseded)  | 10    | 54,202  |                |
| Debt issued designated at fair value (new line)  | 10    |         | <b>49,502</b>  |
| Other financial liabilities designated at fair value (new line)                                    | 10,11 |         | <b>16,223</b>  |
| <b>Total financial liabilities measured at fair value through profit or loss</b>                   |       |         | <b>212,323</b> |
| Provisions   |       | 3,084   | <b>3,084</b>   |
| Other non-financial liabilities (new line)   | 11    |         | <b>6,335</b>   |
| Other liabilities (superseded)   | 11    | 54,990  |                |
| <b>Total liabilities</b>   |       | 865,588 | <b>865,588</b> |
| <b>Total liabilities and equity</b>  |       | 916,363 | <b>916,363</b> |

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

**Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

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

**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 58,556 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*.

– Assets of CHF 29,505 million as of 31 December 2017, previously presented within *Other assets*, are now presented within *Other assets measured at amortized cost* (CHF 26,710 million) and *Other non-financial assets* (CHF 2,795 million).

– 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 5,571 million. Refer to Note 11 a) for more

information.

– Refer to Note 11 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 Obligations of UBS AG from funding received from UBS Group AG or its subsidiaries of CHF 34,749 million as of 31 December 2017, which were previously included within *Due to customers*, are now presented separately within *Funding from UBS Group AG and its subsidiaries*.
- 10 Financial liabilities designated at fair value through profit or loss of CHF 54,202 million as of 31 December 2017 are now presented within *Debt issued designated at fair value* (CHF 49,502 million) and *Other financial liabilities designated at fair value* (CHF 4,700 million).
- 11 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*.

– Liabilities amounting to CHF 54,990 million as of 31 December 2017, previously presented within *Other liabilities*, are now presented within *Other financial liabilities measured at amortized cost* (CHF 37,133 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 6,335 million).

– Refer to note 11 c) for more information on financial liabilities now presented within *Other financial liabilities measured at amortized cost*.

– Refer to note 11 d) for more information on financial liabilities now presented within *Other financial liabilities designated at fair value*.

– Refer to note 11 e) for more information on liabilities now presented within *Other non-financial liabilities*.

## **Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

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

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

As set out in the amended accounting policies in section 18.1, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be classified at amortized cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL), based on the business model for managing the respective assets and their contractual cash flow characteristics.

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

- Determination of the business model was made based on facts and circumstances as of the 1 January 2018 transition date;

- De-designations and new designations of financial instruments at FVTPL, pursuant to transition requirements of IFRS 9, have been carried out as of 1 January 2018. These reassessments resulted in:

- i. the de-designation of certain financial assets designated at FVTPL, as they are managed on a fair value basis, and therefore are mandatorily measured at fair value, or no longer managed on a fair value basis but held to collect the contractual cash flows and therefore are measured at amortized cost;

- ii. newly designated financial liabilities at FVTPL (e.g., brokerage payables) in order to achieve measurement consistency with associated financial assets that are mandatorily measured at FVTPL (e.g., brokerage receivables).

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

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

- lending arrangements that no longer qualify for amortized cost accounting under IFRS 9 are classified at FVTPL because the business model within which they are managed does not have an objective to hold financial assets in order to collect the contractual cash flows or to collect contractual cash flows and sell (e.g., certain Investment Bank lending arrangements);

– equity instruments classified as available for sale under IAS 39 are classified at FVTPL under IFRS 9; and

– financial liabilities are newly designated under IFRS 9 at FVTPL, from amortized cost accounting, to align with conclusions reached for associated financial assets that will be measured at FVTPL (e.g., brokerage payables).

*Effect on UBS AG income statement presentation*

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

*Effect on UBS AG Statement of cash flows*

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

*Transition to expected credit loss requirements*

As set out in UBS AG's amended accounting policies in section 18.1, 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.



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

## **Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

### *Models at transition*

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

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

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

→ **Refer to “Credit risk models” in the “Risk, treasury and capital management” section of our Annual Report 2017 for more information**

→ **Refer to “Significant accounting and financial reporting changes in 2018” in the “Operating environment and strategy” section of our Annual Report 2017 for more information**

### *Scenarios and scenario weights at transition*

As outlined in section 18.1, UBS AG uses four different economic scenarios in the ECL calculation: an upside, a baseline, a mild downside and a severe downside scenario. ECL calculated on transition have been determined for each of the scenarios and subsequently weighted based on the probabilities in the table “Economic scenarios and weights applied.”

### **Economic scenarios and weights applied**

| <b>ECL scenario</b> | <b>Assigned weights in % (1.1.18 )</b> |
|---------------------|--|
| Upside              | 20.0                                   |
| Baseline            | 42.5                                   |
| Mild downside       | 30.0                                   |
| Severe downside     | 7.5                                    |

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

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

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

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

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

#### *Macroeconomic and other factors at transition*

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

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



## **Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

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

For the baseline scenario, which is modeled along our business plan assumptions of a continuation of overall important global growth, Swiss GDP growth remains between 1% and 2% annually over the three years of the scenario. Moderate growth results in a very mild decrease 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, which is cushioned by higher interest rates, is more moderate than the decline in 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 and house prices decline at a similar rate in the US and Switzerland. 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 18.1, for the majority of ECL-relevant instruments, the contractual maturity is used to calculate the measurement period, with this capped at 12 months when stage 1 ECL are required. In addition, for credit card limits and Swiss callable master credit facilities, judgment is required as UBS AG must determine the period over which it is exposed to credit risk. A seven-year period has been applied for credit cards and 12 months for master credit facilities. UBS AG's ECL-relevant financial instruments have relatively short average maturities, which significantly contribute to the level of ECL on transition.

*SICR determination at transition*

The identification of instruments for which an SICR has been determined since initial recognition and the corresponding allocation to stage 2 at transition generally follow the principles described in the relevant accounting policy provided in section 18.1. 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.

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

### **Note 18 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 18 Transition to IFRS 9 as of 1 January 2018 (continued)****Reclassification and remeasurement of carrying amounts and recognition of ECL upon adoption of IFRS 9**

| CHF million  | Classification under IAS 39  | 31.12.2017               | 1.1.2018                                      |   | Recognition of ECL (IFRS 9) | Carrying amount (IFRS 9) |
|--|------------------------------|--------------------------|---|---|-----------------------------|--------------------------|
|  |                              | Carrying amount (IAS 39) | Reclassification (of IAS 39 carrying amounts) | Remeasurement due to reclassification incl. reversal of IAS 39 / IAS 37 allowances / provisions |                             |                          |
| <b>Assets</b>  |                              |                          |   |   |                             |                          |
| Cash and balances at central banks                             | Loans and receivables        | 87,775                   |   |   | 0                           | <b>87,775</b>            |
| Loans and advances to banks                                    | Loans and receivables        | 13,693                   | (17)  |   | (3) <sup>12</sup>           | <b>13,673</b>            |
| <i>to: Brokerage receivables</i>                               | <i>Loans and receivables</i> |                          | (17) <sup>1</sup>                             |   |                             |                          |
| Receivables from securities financing transactions             | Loans and receivables        | 89,633                   | (4,957)                                       |   | (2) <sup>12</sup>           | <b>84,674</b>            |
| <i>to: Financial assets at fair value not held for trading</i> | <i>Loans and receivables</i> |                          | (4,957) <sup>2</sup>                          |   |                             |                          |
| Cash collateral receivables on derivative instruments          | Loans and receivables        | 23,434                   |   |   | 0                           | <b>23,434</b>            |
| Loans and advances to customers                                | Loans and receivables        | 320,659                  | (7,822)                                       |   | 0                           | <b>312,602</b>           |
| <i>to: Financial assets at fair value not held for trading</i> | <i>Loans and receivables</i> |                          | (2,678) <sup>3</sup>                          |   |                             |                          |
| <i>to: Brokerage receivables</i>                               | <i>Loans and receivables</i> |                          | (4,691) <sup>1</sup>                          |   |                             |                          |
| <i>to: Financial assets at fair value held for trading</i>     | <i>Loans and receivables</i> |                          | (468) <sup>4</sup>                            |   |                             |                          |

|  |  |         |                       |  |                   |                                  |
|--|--|---------|-----------------------|--|-------------------|----------------------------------|
| from: Financial assets at fair value not held for trading  | FVTPL (designated)   |         | 8 <sup>5</sup>        |  | 0                 |                                  |
| from: Financial assets at fair value held for trading  | FVTPL (held for trading)   |         | 6 <sup>5</sup>        |  |                   |                                  |
| Other financial assets measured at amortized cost to: Brokerage receivables  | Loans and receivables, held to maturity<br>Loans and receivables | 36,935  | (18,525)              |  | 0                 | (35) <sup>12</sup> <b>18,375</b> |
| from: Financial assets measured at fair value through other comprehensive income   | Available for sale   |         | 555 <sup>6</sup>      |  | 0                 |                                  |
| <b>Total financial assets measured at amortized cost</b>   |  | 572,129 | (31,321)              |  | 0                 | (275) <b>540,533</b>             |
| Financial assets at fair value held for trading to: Loans and advances to customers  | FVTPL (held for trading)   | 126,244 | (10,854)              |  | (15)              | <b>115,375</b>                   |
| to: Financial assets at fair value not held for trading from: Loans and advances to customers of which: assets pledged as collateral that may be sold or repledged by counterparties | FVTPL (held for trading)   |         | (6) <sup>5</sup>      |  |                   |                                  |
| Derivative financial instruments   | FVTPL (held for trading)   |         | (11,316) <sup>7</sup> |  |                   |                                  |
| Brokerage receivables from: Loans and advances to banks  | Loans and receivables<br>Loans and receivables                   |         | 468 <sup>4</sup>      |  | (15) <sup>4</sup> |                                  |
|  | FVTPL (held for trading)   | 35,363  |                       |  |                   | <b>35,363</b>                    |
|  | FVTPL (derivatives)  | 118,229 |                       |  |                   | <b>118,229</b>                   |
|  | Loans and receivables  |         | 23,787                |  |                   | <b>23,787</b>                    |
|  | Loans and receivables  |         | 17 <sup>1</sup>       |  |                   |                                  |



|   |                                 |                     |                      |                    |                           |
|---|---------------------------------|---------------------|----------------------|--------------------|---------------------------|
| <i>from: Loans and advances to customers</i>  | <i>Loans and receivables</i>    |                     | 4,691 <sup>1</sup>   |                    |                           |
| <i>from: Other financial assets measured at amortized cost</i>                          | <i>Loans and receivables</i>    |                     | 19,080 <sup>1</sup>  |                    |                           |
| Financial assets at fair value not held for trading                                     | FVTPL (designated)              | 58,556 <sup>9</sup> | 20,297               | (287)              | <b>78,566</b>             |
| <i>to: Loans and advances to customers</i>  | <i>FVTPL (designated)</i>       |                     | (8) <sup>5</sup>     |                    |                           |
| <i>from: Financial assets at fair value held for trading</i>                            | <i>FVTPL (held for trading)</i> |                     | 11,316 <sup>7</sup>  |                    |                           |
| <i>from: Receivables from securities financing transactions</i>                         | <i>Loans and receivables</i>    |                     | 4,957 <sup>2</sup>   | (1)                |                           |
| <i>from: Loans and advances to customers</i>  | <i>Loans and receivables</i>    |                     | 2,678 <sup>3</sup>   | (286) <sup>3</sup> |                           |
| <i>from: Financial assets measured at fair value through other comprehensive income</i> | <i>Available for sale</i>       |                     | 1,356 <sup>8</sup>   |                    |                           |
| <b>Total financial assets measured at fair value through profit or loss</b>             |                                 | 303,028             | 33,231               | (303)              | <b>335,957</b>            |
| <b>Financial assets measured at fair value through other comprehensive income</b>       | <b>Available for sale</b>       | 8,665               | (1,911)              |                    | <b>6,755<sup>10</sup></b> |
| <i>to: Other financial assets measured at amortized cost</i>                            | <i>Available for sale</i>       |                     | (555) <sup>6</sup>   |                    |                           |
| <i>to: Financial assets at fair value not held for trading</i>                          | <i>Available for sale</i>       |                     | (1,356) <sup>8</sup> |                    |                           |

|                                  |         |                  |                  |                |
|----------------------------------|---------|------------------|------------------|----------------|
| Investments in associates        | 1,018   |                  |                  | <b>1,018</b>   |
| Property, equipment and software | 7,985   |                  |                  | <b>7,985</b>   |
| Goodwill and intangible assets   | 6,398   |                  |                  | <b>6,398</b>   |
| Deferred tax assets              | 9,783   | 58 <sup>11</sup> | 64 <sup>11</sup> | <b>9,905</b>   |
| Other non-financial assets       | 7,358   |                  |                  | <b>7,358</b>   |
| <b>Total assets</b>              | 916,363 | (245)            | (211)            | <b>915,908</b> |

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

**Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)****Reclassification and remeasurement of carrying amounts and recognition of ECL upon adoption of IFRS 9 (continued)**

| CHF million   | Classification under IAS 39 | Carrying amount (IAS 39) | Reclassification (of IAS 39 carrying amounts) | 1.1.2018  |                             | Carrying amount (IFRS 9) |
|---|-----------------------------|--------------------------|---|---|-----------------------------|--------------------------|
|   |                             |                          |   | Remeasurement due to reclassification incl. reversal of IAS 39 / IAS 37 allowances / provisions | Recognition of ECL (IFRS 9) |                          |
| <b>Liabilities</b>  |                             |                          |   |   |                             |                          |
| Amounts due to banks  | Amortized cost              | 7,533                    |   |   |                             | <b>7,533</b>             |
| Payables from securities financing transactions                 | Amortized cost              | 17,044                   | (5,081)                                       |   |                             | <b>11,963</b>            |
| <i>to: Other financial liabilities designated at fair value</i> | <i>Amortized cost</i>       |                          | <i>(5,081)<sup>13</sup></i>                   |   |                             |                          |
| Cash collateral payables on derivative instruments              | Amortized cost              | 30,247                   |   |   |                             | <b>30,247</b>            |
| Customer deposits   | Amortized cost              | 412,392                  | (5,268)                                       |   |                             | <b>407,124</b>           |
| <i>to: Brokerage payables designated at fair value</i>          | <i>Amortized cost</i>       |                          | <i>(5,268)<sup>14</sup></i>                   |   |                             |                          |
| Funding from UBS Group AG and its subsidiaries                  | Amortized cost              | 34,749                   |   |   |                             | <b>34,749</b>            |
| Debt issued measured at amortized cost                          | Amortized cost              | 104,749                  |   |   |                             | <b>104,749</b>           |
| Other financial liabilities measured at amortized cost          | Amortized cost              | 37,133                   | (29,646)                                      | (4)   |                             | <b>7,482</b>             |
|   |                             |                          | (29,646) <sup>14</sup>                        |   |                             |                          |

|   |                            |         |                      |                   |                |
|---|----------------------------|---------|----------------------|-------------------|----------------|
| <i>to: Brokerage payables designated at fair value</i>              | <i>Amortized cost</i>      |         |                      |                   |                |
| <i>Derecognition: deferred fees on other loan commitments</i>       | <i>Amortized cost</i>      |         |                      | (4) <sup>4</sup>  |                |
| <b>Total financial liabilities measured at amortized cost</b>       |                            | 643,847 | (39,996)             | (4)               | <b>603,848</b> |
| Financial liabilities at fair value held for trading                | FVTPL (held for trading)   | 30,463  |                      |                   | <b>30,463</b>  |
| Derivative financial instruments                                    | FVTPL (derivatives)        | 116,134 |                      | 57                | <b>116,192</b> |
|   | <i>Amortized cost –</i>    |         |                      |                   |                |
| <i>Recognition: Loan commitments</i>                                | <i>off-balance sheet</i>   |         |                      | 60 <sup>4</sup>   |                |
| <i>Derecognition: Loan commitments</i>                              | <i>FVTPL (derivatives)</i> |         |                      | (2) <sup>5</sup>  |                |
| Brokerage payables designated at fair value                         | Amortized cost             |         | 34,915               |                   | <b>34,915</b>  |
| <i>from: Customer deposits</i>                                      | <i>Amortized cost</i>      |         | 5,268 <sup>14</sup>  |                   |                |
| <i>from: Other financial liabilities measured at amortized cost</i> | <i>Amortized cost</i>      |         | 29,646 <sup>14</sup> |                   |                |
| Debt issued designated at fair value                                | FVTPL (designated)         | 49,502  |                      |                   | <b>49,502</b>  |
| Other financial liabilities designated at fair value                | FVTPL (designated)         | 16,223  | 5,081                | (5)               | <b>21,300</b>  |
| <i>from: Payables from securities financing transactions</i>        | <i>Amortized cost</i>      |         | 5,081 <sup>13</sup>  | (5) <sup>13</sup> |                |
|   |                            | 212,323 | 39,996               | 53                | <b>252,371</b> |

**Total financial liabilities measured at fair value through profit or loss**

|                                 |                |  |           |                  |                |
|---------------------------------|----------------|--|-----------|------------------|----------------|
| Provisions                      | 3,084          |  |           | 74 <sup>12</sup> | <b>3,158</b>   |
| Other non-financial liabilities | 6,335          |  |           |                  | <b>6,335</b>   |
| <b>Total liabilities</b>        | <b>865,588</b> |  | <b>49</b> | <b>74</b>        | <b>865,711</b> |

**Equity**

|  |                |                      |                           |                           |                |
|--|----------------|----------------------|---------------------------|---------------------------|----------------|
| Share capital  | 386            |                      |                           |                           | <b>386</b>     |
| Share premium  | 26,966         |                      |                           |                           | <b>26,966</b>  |
| Retained earnings  | 29,102         | 72 <sup>8,15</sup>   | (293)                     | (284)                     | <b>28,597</b>  |
| Other comprehensive income recognized directly in equity, net of tax | (5,736)        | (72) <sup>8,15</sup> |                           |                           | <b>(5,808)</b> |
| <b>Equity attributable to shareholders</b>                           | <b>50,718</b>  | <b>0</b>             | <b>(293)<sup>15</sup></b> | <b>(284)<sup>15</sup></b> | <b>50,141</b>  |
| Equity attributable to non-controlling interests                     | 57             |                      |                           |                           | <b>57</b>      |
| <b>Total equity</b>  | <b>50,775</b>  | <b>0</b>             | <b>(293)</b>              | <b>(284)</b>              | <b>50,198</b>  |
| <b>Total liabilities and equity</b>                                  | <b>916,363</b> | <b>0</b>             | <b>(245)</b>              | <b>(211)</b>              | <b>915,908</b> |

**Note 18 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"*

- 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*.

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:
  - 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
  - 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.

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.

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*.

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.

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 AG 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 AG's trading activities, where UBS AG's role is primarily to manage the assets on a fair value basis on behalf of others. Instead, such assets will be presented alongside others managed on a fair value basis within *Financial assets at fair value not held for trading*. As a consequence of this refinement, UBS AG 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.

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

**Note 18 Transition to IFRS 9 as of 1 January 2018 (continued)**

- 8 UBS AG holds certain global and local liquidity buffers that were determined to be managed on a fair value basis as management utilizes fair value information for reporting and decision making purposes. Therefore, assets previously classified as available for sale under IAS 39 with a carrying amount of CHF 620 million as of 31 December 2017 were reclassified to *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*.

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*.

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 58,556 million as of 31 December 2017 are no longer designated as such under IFRS 9, as it was determined that these assets were either held in a business model that is managed on a fair value basis, did not meet the SPPI criteria, or did meet the SPPI criteria and are held in a hold to collect business model.

Of the total, assets with a carrying amount of CHF 58,548 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.

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.

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 18 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                |                     |
|---|--------------------|-----------------|-------------------------|---------------------|
|   | Loss               |                 |                         |                     |
|   | allowances         |                 |                         | <b>Allowances</b>   |
|   | and                |                 |                         | <b>for ECL /</b>    |
|   | provisions         | Reversal of     | Recognition             | <b>Provisions</b>   |
|   | (IAS 39 /          | allowances      | of ECL                  | <b>for ECL</b>      |
|   | IAS 37)            | (IAS 39)        | (IFRS 9) <sup>1</sup>   | <b>(IFRS 9)</b>     |
| <i>CHF million</i>  |                    |                 |                         |                     |
| <b>On-balance sheet</b>   |                    |                 |                         |                     |
| Cash and balances at central banks  |                    |                 | 0                       | <b>0</b>            |
| Loans and advances to banks   | (3)                |                 | (3)                     | <b>(5)</b>          |
| Receivables from securities financing transactions                          |                    |                 | (2)                     | <b>(2)</b>          |
| Cash collateral receivables on derivative instruments                       |                    |                 | 0                       | <b>0</b>            |
| Loans and advances to customers   | (658)              | 26 <sup>2</sup> | (235) <sup>3</sup>      | <b>(867)</b>        |
| Other financial assets measured at amortized cost                           | (101) <sup>4</sup> |                 | (35)                    | <b>(136)</b>        |
| <b>Total on-balance sheet</b>   | <b>(761)</b>       | <b>26</b>       | <b>(275)</b>            | <b>(1,011)</b>      |
| <b>Off-balance sheet financial instruments and other credit lines</b>       |                    |                 |                         |                     |
| Guarantees  | (29)               |                 | (8)                     | <b>(37)</b>         |
| Loan commitments  | (4)                |                 | (32)                    | <b>(36)</b>         |
| Other credit lines  |                    |                 | (34)                    | <b>(34)</b>         |
| <b>Total off-balance sheet financial instruments and other credit lines</b> | <b>(33)</b>        |                 | <b>(74)</b>             | <b>(107)</b>        |
| <b>Total</b>  | <b>(794)</b>       | <b>26</b>       | <b>(348)</b>            | <b>(1,117)</b>      |
| <i>of which: stage 1</i>  |                    |                 | <i>(144)</i>            | <b><i>(144)</i></b> |
| <i>of which: stage 2</i>  |                    |                 | <i>(188)</i>            | <b><i>(188)</i></b> |
| <i>of which: stage 3</i>  |                    |                 | <i>(16)<sup>5</sup></i> | <b><i>(785)</i></b> |

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.

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

**Note 18 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 | <b>(199)</b> |
| Reclassification of financial assets (available for sale to fair value through profit or loss) – debt instruments   | <b>(5)</b>   |
| Tax (expense) / benefit   | <b>131</b>   |
| <b>Total change in other comprehensive income</b>   | <b>(72)</b>  |

**Retained earnings**

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



**Cautionary Statement Regarding Forward-Looking Statements** | This report contains statements that constitute “forward-looking statements,” including but not limited to management’s outlook for UBS’s financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS’s business and future development. While these forward-looking statements represent UBS’s judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS’s expectations. These factors include, but are not limited to: (i) the degree to which UBS is successful in the ongoing execution of its strategic plans, including its cost reduction and efficiency initiatives and its ability to manage its levels of risk-weighted assets (RWA), including to counteract regulatory-driven increases, leverage ratio denominator, liquidity coverage ratio and other financial resources, and the degree to which UBS is successful in implementing changes to its businesses to meet changing market, regulatory and other conditions; (ii) continuing low or negative interest rate environment, developments in the macroeconomic climate and in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effects of economic conditions, market developments, and geopolitical tensions on the financial position or creditworthiness of UBS’s clients and counterparties as well as on client sentiment and levels of activity; (iii) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt eligible for total loss-absorbing capacity (TLAC); (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that have imposed, or resulted in, or may do so in the future, more stringent or entity-specific capital, TLAC, leverage ratio, liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration, constraints on transfers of capital and liquidity and sharing of operational costs across the Group or other measures, and the effect these will or would have on UBS’s business activities; (v) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, to proposals in Switzerland and other jurisdictions for mandatory structural reform of banks or systemically important institutions or to other external developments, and the extent to which such changes will have the intended effects; (vi) uncertainty as to the extent to which the Swiss Financial Market Supervisory Authority (FINMA) will confirm limited reductions of gone

concern requirements due to measures to reduce resolvability risk; (vii) the uncertainty arising from the timing and nature of the UK exit from the EU and the potential need to make changes in UBS's legal structure and operations as a result of it; (viii) changes in UBS's competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS's ability to compete in certain lines of business; (ix) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including recently enacted and proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (x) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses or loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational risk component of our RWA; (xi) the effects on UBS's cross-border banking business of tax or regulatory developments and of possible changes in UBS's policies and practices relating to this business; (xii) UBS's ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xiii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters, including from changes to US taxation under the Tax Cuts and Jobs Act; (xiv) UBS's ability to implement new technologies and business methods, including digital services and technologies and ability to successfully compete with both existing and new financial service providers, some of which may not be regulated to the same extent; (xv) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyberattacks, and systems failures; (xvii) restrictions on the ability of UBS AG to make payments or distributions, including due to restrictions on the ability of its subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA or the regulators of UBS's operations in other countries of their broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; (xviii) the degree to which changes in regulation, capital or legal structure, financial results or other factors may affect UBS's ability to maintain its stated capital return objective; and (xix) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS's Annual Report on Form 20-F for the year ended 31 December 2017. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

**Rounding** | Numbers presented throughout this report may not add up precisely to the totals provided in the tables and text. Starting in 2018, percentages, percent changes, and adjusted results are calculated on the basis of unrounded figures. Information on absolute changes between reporting periods, which is provided in text and that can be derived from figures

displayed in the tables, 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.





UBS AG

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

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**SIGNATURES**

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

UBS AG

By: /s/ Sergio Ermotti

Name: Sergio Ermotti

Title: President of the Executive Board

By: /s/ Kirt Gardner

Name: Kirt Gardner

Title: Chief Financial Officer

By: /s/ Todd Tuckner

Name: Todd Tuckner

Title: Group Controller and  
Chief Accounting Officer

Date: October 31, 2018

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