Our financial results

Second quarter 2018 report

Corporate calendar UBS Group AG

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

Corporate calendar UBS AG*

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

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

Contacts

Switchboards
For all general inquiries
www.ubs.com/contact

Zurich +41-44-234 1111
London +44-20-7568 0000
New York +1-212-821 3000
Hong Kong +852-2971 8888

Investor Relations

UBS's Investor Relations team supports institutional, professional and retail investors from our offices in Zurich, London, New York and Krakow.

UBS Group AG, Investor Relations
P.O. Box, CH-8098 Zurich, Switzerland

www.ubs.com/investors

Hotline Zurich +41-44-234 4100
Hotline New York +1-212-882 5734

Media Relations
UBS's Media Relations team supports global media and journalists from our offices in Zurich, London, New York and Hong Kong.

www.ubs.com/media

Zurich +41-44-234 8500
mediarelations@ubs.com

London +44-20-7567 4714
ubs-media-relations@ubs.com

New York +1-212-882 5857
mediarelations-ny@ubs.com

Hong Kong +852-2971 8200
sh-mediarelations-ap@ubs.com

Office of the Group Company Secretary
The Group Company Secretary receives inquiries on compensation and related issues addressed to members of the Board of Directors.

UBS Group AG, Office of the Group Company Secretary
P.O. Box, CH-8098 Zurich, Switzerland

sh-company-secretary@ubs.com

Hotline +41-44-235 6652
Fax +41-44-235 8220

Shareholder Services
UBS's Shareholder Services team, a unit of the Group Company Secretary Office, is responsible for the registration of UBS Group AG registered shares.

UBS Group AG, Shareholder Services
P.O. Box, CH-8098 Zurich, Switzerland

sh-shareholder-services@ubs.com

Hotline +41-44-235 6652
Fax +41-44-235 8220

US Transfer Agent
For global registered share-related inquiries in the US.

Computershare Trust Company NA
P.O. Box 30170
College Station
TX 77842-3170, USA

Shareholder online inquiries:
https://www-us.computershare.com/investor/Contact

Shareholder website:
www.computershare.com/investor

Calls from the US +1-866-305-9566
Calls from outside the US
+1-781-575-2623
TDD for hearing impaired
+1-800-231-5469
TDD for foreign shareholders
+1-201-680-6610

Imprint

Publisher: UBS Group AG, Zurich, Switzerland | www.ubs.com
Language: English

Our key figures

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

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

UBS Group

Management report

Terms used in this report, unless the context requires otherwise

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

Recent developments

Regulatory and legal developments

Swiss Parliament adopts FinSA and FinIA

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

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

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

Contingency measures to protect the Swiss stock exchange infrastructure

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

UK withdrawal from the EU

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

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

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

Developments related to the US financial regulatory framework

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

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

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

BCBS consults on revisions to market risk framework

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

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

Global cyber security developments

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

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

Developments related to the transition away from IBOR

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

Other developments

Increase in stake in UBS Securities China

Following the announcement by the China Securities Regulatory Commission that foreign investors will be permitted to increase their ownership percentages in China affiliates to a cap of 51%, and may be allowed to increase their ownership up to 100% in 2021, we submitted in May 2018 a preliminary application to increase the shareholding in our China affiliate, UBS Securities Co. Limited (UBSS), from 24.99% to 51%. The transaction is subject to completion of a share purchase from existing shareholders and regulatory approval. If we acquire majority ownership, we would consolidate our investment in UBSS under International Financial Reporting Standards (IFRS) and would be required to remeasure our current 24.99% holding in UBSS at fair value, likely resulting in a loss. The loss should not materially affect our CET1 capital as the loss is expected to be largely offset by the release of a capital deduction for the goodwill included within the initial stake.

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

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

Publication of 2017 EU CRD IV disclosures

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

Group performance

Income statement

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

Comprehensive income

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

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

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

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

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

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

1 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 2 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 3 Corporate Center – Services operating expenses presented in this table are after service allocations to business divisions and other Corporate Center units. 4 Related to the disposal of foreign subsidiaries and branches. 5 Reflects restructuring expenses related to legacy cost programs as well as expenses for new restructuring initiatives in 2018 for Global Wealth Management and Asset Management. 6 Includes recoveries from third parties (second quarter of 2018: CHF 10 million, first quarter of 2018: CHF 17 million; second quarter of 2017: CHF 1 million). 7 Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of this report for more information. 8 Reflects a gain on sale of our remaining investment in IHS Markit in the Investment Bank. Figures presented for periods prior to the first quarter of 2018 relate to financial assets available for sale. With the adoption of IFRS 9, certain financial assets were reclassified from available for sale under IAS 39 to measured at fair value through OCI under IFRS 9. Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information.

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

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

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

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

Results: 2Q18 vs 2Q17

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

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

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

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

Operating income: 2Q18 vs 2Q17

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

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

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

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

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

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

Global Wealth Management

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

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

Personal & Corporate Banking

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

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

Investment Bank

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

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

Corporate Center

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

Net fee and commission income

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

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

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

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

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

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

Other income

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

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

Credit loss (expense) / recovery

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

Credit loss expense / recovery

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

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

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

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

Operating expenses

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

1 Reflects restructuring expenses related to legacy cost programs as well as expenses for new restructuring initiatives in 2018 for Global Wealth Management and Asset Management. 2 Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of this report for more information. 3 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 4 Financial advisor variable compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated on the basis of financial advisor productivity, firm tenure, assets and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment that are subject to vesting requirements. 5 Consists of expenses related to contractors, social security, pension and other post-employment benefit plans and other personnel expenses. Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of this report for more information.

Operating expenses: 2Q18 vs 2Q17

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

Personnel expenses

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

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

General and administrative expenses

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

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

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

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

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

Depreciation, amortization and impairment

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

Tax: 2Q18 vs 2Q17

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sensitivity to interest rate movements

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

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

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

Key figures and personnel

Return on tangible equity: 2Q18 vs 2Q17

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

Cost / income ratio: 2Q18 vs 2Q17

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

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

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

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

Risk-weighted assets: 2Q18 vs 1Q18

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

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

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

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

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

Going concern leverage ratio: 2Q18 vs 1Q18

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

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

Leverage ratio denominator: 2Q18 vs 1Q18

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

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

Net new money and invested assets

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

Personnel: 2Q18 vs 1Q18

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

Return on equity

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

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

Net new money[1]

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

1 Net new money excludes interest and dividend income.

Invested assets

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

Results: 6M18 vs 6M17

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

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

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

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

Outlook

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

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

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

UBS business divisions and Corporate Center

Management report

Global Wealth Management

Global Wealth Management[1]

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

Global Wealth Management (continued)[1]

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

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

Regional breakdown of key figures[1]

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

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

Results: 2Q18 vs 2Q17

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

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

Operating income

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

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

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

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

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

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

Operating expenses

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

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

Net new money: 2Q18 vs 2Q17

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

Invested assets: 2Q18 vs 1Q18

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

Results: 6M18 vs 6M17

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

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

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

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

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

Personal & Corporate Banking

Personal & Corporate Banking[1]

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

Personal & Corporate Banking (continued)[1]

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

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

Results: 2Q18 vs 2Q17

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

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

Operating income

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

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

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

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

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

Other income was broadly unchanged at CHF 14 million.

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

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

Operating expenses

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

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

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

Results: 6M18 vs 6M17

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

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

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

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

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

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

Asset Management

Asset Management[1]

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

Asset Management (continued)[1]

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

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

Results: 2Q18 vs 2Q17

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

Operating income

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

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

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

Operating expenses

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

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

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

Net new money: 2Q18 vs 2Q17

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

Invested assets: 2Q18 vs 1Q18

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

Results: 6M18 vs 6M17

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

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

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

Investment Bank

Investment Bank[1]

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

Investment Bank (continued)[1]

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

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

Results: 2Q18 vs 2Q17

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

Operating income

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

Corporate Client Solutions

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

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

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

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

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

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

Investor Client Services

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

Equities

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

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

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

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

Foreign Exchange, Rates and Credit

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

Operating expenses

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

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

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

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

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

Risk-weighted assets

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

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

Leverage ratio denominator

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

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

Results: 6M18 vs 6M17

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

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

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

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

Corporate Center

Corporate Center[1]

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

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

Corporate Center – Services

Corporate Center – Services[1]

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

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

Results: 2Q18 vs 2Q17

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

Operating income

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

Operating expenses

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

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

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

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

Services to / from business divisions and other Corporate Center units

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

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

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

Results: 6M18 vs 6M17

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

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

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

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

Personnel: 2Q18 vs 1Q18

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

Corporate Center – Group Asset and Liability Management

Corporate Center – Group ALM[1]

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

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

Results: 2Q18 vs 2Q17

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

Operating income

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

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

Business division-aligned risk management net income

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

Capital investment and issuance net income

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

Group structural risk management net income

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

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

Allocations to business divisions and other Corporate Center units

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

Total risk management net income after allocations

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

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

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

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

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

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

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

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

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

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

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

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

Results: 6M18 vs 6M17

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

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

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

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

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

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

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

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

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

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

Corporate Center – Non-core and Legacy Portfolio

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

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

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

Composition of Non-core and Legacy Portfolio[1]

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

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

Results: 2Q18 vs 2Q17

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

Operating income

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

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

Operating expenses

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

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

Balance sheet assets

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

Risk-weighted assets

Risk-weighted assets were stable at CHF 16 billion.

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

Leverage ratio denominator

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

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

Results: 6M18 vs 6M17

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

Risk, treasury and capital management

Management report

Table of contents

Risk management and control

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

Credit risk

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

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

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

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

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

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

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

Market risk

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

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

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

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

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

Country risk

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

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

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

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

Operational risk

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

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

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

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

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

Key risk metrics

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

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

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

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

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

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

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

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

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

Interest rate sensitivity – banking book[1]

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

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

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

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

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

Balance sheet, liquidity and funding management

Strategy, objectives and governance

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

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

Adoption of IFRS 9

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

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

Assets and liquidity management

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

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

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

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

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

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

IFRS balance sheet assets

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

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

Liquidity coverage ratio

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

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

Liquidity coverage ratio

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

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

Liabilities and funding management

Liabilities (30 June 2018 vs 31 March 2018)

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

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

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

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

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

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

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

Equity

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

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

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

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

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

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

IFRS balance sheet liabilities and equity

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

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

Net stable funding ratio

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

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

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

Pro forma net stable funding ratio

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

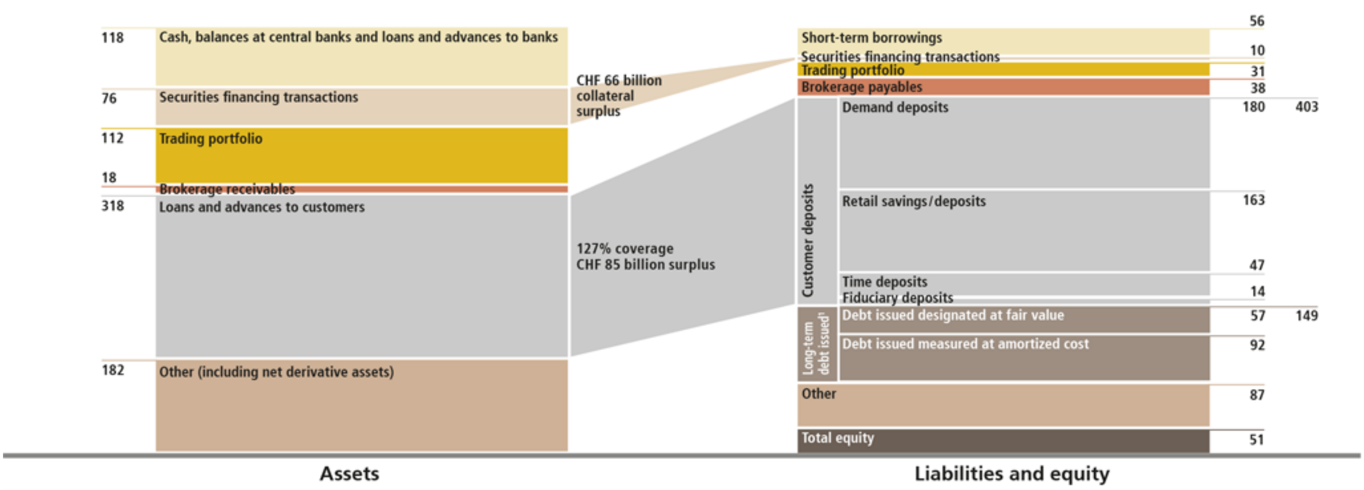
Funding by product and currency

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

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

Asset funding

CHF billion, except where indicated *As of 30.6.18*



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

Capital management

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

Information in accordance with the Basel Committee on Banking Supervision framework for UBS Group AG consolidated together with capital and other regulatory information for UBS AG standalone, UBS Switzerland AG standalone, UBS Limited standalone and UBS Americas Holding LLC consolidated is provided in our 30 June 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which will be available as of 7 August 2018 under "Pillar 3 disclosures" at *www.ubs.com/investors*.

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

Swiss SRB requirements and information

Information on the Swiss SRB capital framework and on Swiss SRB going and gone concern requirements that are being phased in until the end of 2019 is provided in the "Capital management" section of our Annual Report 2017, which is available under "Annual reporting" at *www.ubs.com/investors*. These requirements are also applicable to UBS AG consolidated and UBS Switzerland AG standalone. UBS AG is subject to going concern requirements on a standalone basis for which details are provided in the 31 December 2017 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which is available under "Pillar 3 disclosures" at *www.ubs.com/investors* and in our 30 June 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which will be available as of 7 August 2018 under "Pillar 3 disclosures" at *www.ubs.com/investors*.

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

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

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

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

1 This table includes a rebate equal to 35% of the maximum rebate on the gone concern requirements, which was granted by FINMA and will be phased in until 1 January 2020. This table does not include a rebate for the usage of low-trigger loss-absorbing additional tier 1 or tier 2 capital instruments to meet the gone concern requirements. 2 Includes outstanding low-trigger loss-absorbing additional tier 1 (AT1) capital instruments, which are available under the transitional rules of the Swiss SRB framework to meet the going concern requirements until their first call date, even if the first call date is after 31 December 2019. As of their first call date, these instruments are eligible to meet the gone concern requirements. 3 Includes outstanding high- and low-trigger loss-absorbing tier 2 capital instruments, which are available under the transitional rules of the Swiss SRB framework to meet the going concern requirements until the earlier of (i) their maturity or first call date or (ii) 31 December 2019, and to meet gone concern requirements thereafter. Outstanding low-trigger loss-absorbing tier 2 capital instruments are subject to amortization starting five years prior to their maturity, with the amortized portion qualifying as gone concern loss-absorbing capacity. Instruments available to meet gone concern requirements are eligible until one year before maturity, with a haircut of 50% applied in the last year of eligibility. 4 Consists of a minimum capital requirement of 8% and a buffer capital requirement of 5.12%, including the effect of countercyclical buffers of 0.26%. 5 Consists of a minimum leverage ratio requirement of 3% and a buffer leverage ratio requirement of 1%. 6 Includes applicable add-ons of 0.72% for RWA and 0.25% for LRD and a rebate of 1.25% for RWA and 0.42% for LRD. 7 Consists of a minimum capital requirement of 8% and a buffer capital requirement of 6.56%, including the effect of countercyclical buffers of 0.26% and applicable add-ons of 1.44%. 8 Consists of a minimum leverage ratio requirement of 3% and a buffer leverage ratio requirement of 2%, including applicable add-ons of 0.5%. 9 Includes applicable add-ons of 1.44% for RWA and 0.5% for LRD and a rebate of 2% for RWA and 0.7% for LRD.

Total loss-absorbing capacity

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

Swiss SRB going and gone concern information

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

1 As of 31 December 2017, phase-in deduction applied for the purpose of the CET1 capital calculation was 80%. These effects are fully phased in from 1 January 2018. Prudential filters applied to RWA and LRD are also fully phased in from 1 January 2018. 2 IFRS 9 expected credit loss adoption effects for exposures treated under the standardized approach are fully deducted from our CET1 capital. The associated classification and measurement changes are considered based on the FINMA consultation paper, which will be superseded by final FINMA guidance, issued 16 July 2018. We expect to implement any changes related to the final guidance by the effective date 1 January 2019. Refer to "Introduction and basis for preparation" of our 30 June 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which will be available as of 7 August 2018 under "Pillar 3 disclosures" at www.ubs.com/investors for more information. 3 Low-trigger loss-absorbing additional tier 1 capital of CHF 2,383 million was partly offset by required deductions for goodwill of CHF 1,296 million. 4 Under the transitional rules of the Swiss SRB framework, outstanding low-trigger loss-absorbing tier 2 capital instruments are subject to amortization starting five years prior to their maturity, with the amortized portion qualifying as gone concern loss-absorbing capacity. 5 Instruments available to meet gone concern requirements are eligible until one year before maturity, with a haircut of 50% applied in the last year of eligibility. 6 Non-Basel III-compliant tier 2 capital instruments qualify as gone concern instruments.

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

Going concern capital and movement

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

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

Gone concern loss-absorbing capacity and movement

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

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

Loss-absorbing capacity and leverage ratios

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

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

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

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

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

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

Swiss SRB total loss-absorbing capacity movement

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

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

Additional information

Sensitivity to currency movements

Risk-weighted assets

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

Leverage ratio denominator

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

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

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

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

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

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

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

2018 CCAR results

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

Risk-weighted assets

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

Movement in risk-weighted assets by key driver

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

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

Credit and counterparty credit risk

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

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

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

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

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

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

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

Market risk

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

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

→ **Refer to the "Risk management and control" section of this report and the 30 June 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which will be available as of 7 August 2018 under "Pillar 3 disclosures" at *www.ubs.com/investors* for more information on market risk developments**

Operational risk

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

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

Risk-weighted assets by business division and Corporate Center unit

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

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

Leverage ratio denominator

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

Movement in leverage ratio denominator by key driver

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

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

The LRD movements described below exclude currency effects.

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

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

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

Leverage ratio denominator by business division and Corporate Center unit

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

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

Equity attribution and return on attributed equity

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

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

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

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

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

Attributed equity

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

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

Return on attributed equity

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

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

UBS shares

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

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

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

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

UBS Group share information

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

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

Ticker symbols UBS Group AG

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

Security identification codes

ISIN	CH0244767585
Valoren	24 476 758
CUSIP	CINS H42097 10 7

Consolidated financial statements

Unaudited

Table of contents

UBS Group AG interim consolidated financial statements (unaudited)

Income statement

		For the quarter ended			Year-to-date	
CHF million, except per share data	Note	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
Interest income from financial instruments measured at amortized cost and fair value through other comprehensive income		2,469	2,250	2,532	4,719	4,928
Interest expense from financial instruments measured at amortized cost		(1,559)	(1,310)	(1,321)	(2,869)	(2,467)
Interest income from financial instruments measured at fair value through profit or loss		1,712	1,593	1,095	3,305	2,050
Interest expense from financial instruments measured at fair value through profit or loss		(1,637)	(790)	(890)	(2,426)	(1,399)
Net interest income		985	1,743	1,417	2,729	3,113
Other net income from fair value changes on financial instruments		2,187	1,466	1,456	3,653	2,896
Credit loss (expense) / recovery	9	(28)	(25)	(46)	(53)	(46)
Fee and commission income		4,793	4,882	4,744	9,675	9,533
Fee and commission expense		(417)	(409)	(449)	(826)	(885)
Net fee and commission income	3	4,377	4,473	4,295	8,850	8,648
Other income	4	34	40	147	74	190
Total operating income		7,554	7,698	7,269	15,252	14,801
Personnel expenses	5	4,059	4,014	4,014	8,073	8,074
General and administrative expenses	6	1,516	1,424	1,488	2,940	2,994
Depreciation and impairment of property, equipment and software		284	272	249	556	505
Amortization and impairment of intangible assets		16	16	16	32	37
Total operating expenses		5,875	5,725	5,767	11,600	11,609
Operating profit / (loss) before tax		1,679	1,973	1,502	3,652	3,192
Tax expense / (benefit)	7	394	457	327	851	701
Net profit / (loss)		1,285	1,516	1,175	2,801	2,490
Net profit / (loss) attributable to non-controlling interests		1	1	1	3	47
Net profit / (loss) attributable to shareholders		1,284	1,514	1,174	2,798	2,443

Earnings per share (CHF)

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

Statement of comprehensive income

	For the quarter ended			Year-to-date	
CHF million	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
Comprehensive income attributable to shareholders					
Net profit / (loss)	1,284	1,514	1,174	2,798	2,443
Other comprehensive income that may be reclassified to the income statement					
Foreign currency translation					
Foreign currency translation movements, before tax (revaluation of net investment)	785	(482)	(1,252)	303	(1,566)
Effective portion of changes in fair value of hedging instruments designated as net investment hedges, before tax	(53)	97	258	44	201
Foreign currency translation differences on foreign operations reclassified to the income statement	15	0	21	15	25
Effective portion of changes in fair value of hedging instruments designated in net investment hedge reclassified to the income statement	0	0	0	0	0
Income tax relating to foreign currency translations, including the impact of net investment hedges	(1)	1	1	0	3
Subtotal foreign currency translation, net of tax	747	(384)	(971)	363	(1,337)
Financial assets measured at fair value through other comprehensive income					
Net unrealized gains / (losses), before tax	(24)	(71)	10	(95)	53
Impairment charges reclassified to the income statement from equity	0	0	(1)	0	13
Realized gains reclassified to the income statement from equity	0	0	(135)	0	(143)
Realized losses reclassified to the income statement from equity	0	0	5	0	7
Income tax relating to net unrealized gains / (losses)	6	19	6	26	(2)
Subtotal financial assets measured at fair value through other comprehensive income, net of tax	(18)	(51)	(115)	(69)	(72)
Cash flow hedges of interest rate risk					
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	(127)	(441)	165	(569)	136
Net (gains) / losses reclassified to the income statement from equity	(70)	(127)	(211)	(197)	(431)
Income tax relating to cash flow hedges	37	114	11	151	63
Subtotal cash flow hedges, net of tax	(161)	(454)	(35)	(615)	(233)
Total other comprehensive income that may be reclassified to the income statement, net of tax	568	(889)	(1,121)	(322)	(1,641)
Other comprehensive income that will not be reclassified to the income statement					
Defined benefit plans					
Gains / (losses) on defined benefit plans, before tax	240	(144)	107	96	156
Income tax relating to defined benefit plans	4	44	1	48	4
Subtotal defined benefit plans, net of tax	244	(100)	108	144	160
Own credit on financial liabilities designated at fair value					
Gains / (losses) from own credit on financial liabilities designated at fair value, before tax	248	171	(72)	419	(252)
Income tax relating to own credit on financial liabilities designated at fair value	0	(2)	(1)	(2)	(1)
Subtotal own credit on financial liabilities designated at fair value, net of tax	248	170	(73)	417	(254)
Total other comprehensive income that will not be reclassified to the income statement, net of tax	492	70	35	562	(94)
Total other comprehensive income	1,060	(820)	(1,086)	240	(1,735)
Total comprehensive income attributable to shareholders	2,343	695	89	3,038	708

Statement of comprehensive income (continued)

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

Balance sheet

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

Balance sheet (continued)

CHF million	Note	30.6.18	31.3.18	31.12.17
Liabilities				
Amounts due to banks		10,242	9,024	7,533
Payables from securities financing transactions		10,130	9,167	17,044
Cash collateral payables on derivative instruments	11	31,843	29,426	30,247
Customer deposits		403,430	398,604	408,999
Debt issued measured at amortized cost	14	137,530	137,883	139,551
Other financial liabilities measured at amortized cost	12	6,909	5,911	36,337
Total financial liabilities measured at amortized cost		600,084	590,014	639,711
Financial liabilities at fair value held for trading	10	31,416	34,747	30,463
Derivative financial instruments	10,11	119,223	111,945	116,133
Brokerage payables designated at fair value	10	37,904	34,793	
Debt issued designated at fair value	10,13	56,849	52,059	49,502
Other financial liabilities designated at fair value	10,12	37,342	34,438	16,223
Total financial liabilities measured at fair value through profit or loss		282,734	267,983	212,322
Provisions	15	3,123	3,044	3,133
Other non-financial liabilities	12	7,708	7,016	9,205
Total liabilities		893,649	868,056	864,371
Equity				
Share capital		385	385	385
Share premium		22,961	25,262	25,942
Treasury shares		(2,032)	(1,520)	(2,133)
Retained earnings		35,584	33,807	32,752
Other comprehensive income recognized directly in equity, net of tax		(6,124)	(6,692)	(5,732)
Equity attributable to shareholders		50,774	51,243	51,214
Equity attributable to non-controlling interests		60	62	57
Total equity		50,834	51,305	51,271
Total liabilities and equity		944,482	919,361	915,642

Statement of changes in equity

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

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

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

Statement of cash flows[1]

	Year-to-date	
CHF million	30.6.18	30.6.17
Cash flow from / (used in) operating activities		
Net profit / (loss)	2,801	2,490
Non-cash items included in net profit and other adjustments:		
Depreciation and impairment of property, equipment and software	556	505
Amortization and impairment of intangible assets	32	37
Credit loss expense / (recovery)	53	46
Share of net profits of associates / joint ventures and impairment of associates	(30)	(36)
Deferred tax expense / (benefit)	455	264
Net loss / (gain) from investing activities	(35)	246
Net loss / (gain) from financing activities	1,340	(307)
Other net adjustments	(1,568)	689
Net change in operating assets and liabilities:		
Loans and advances to banks / amounts due to banks	2,634	484
Securities financing transactions	6,727	(6,568)
Cash collateral on derivative instruments	225	15
Loans and advances to customers	(6,859)	(6,438)
Customer deposits	(1,290)	(13,414)
Financial assets and liabilities at FV held for trading and derivative financial instruments	1,726	(7,353)
Brokerage receivables and payables	8,439	
Financial assets at fair value not held for trading, other financial assets and liabilities	2,291	7,878
Provisions, other non-financial assets and liabilities	(823)	(557)
Income taxes paid, net of refunds	(348)	(689)
Net cash flow from / (used in) operating activities	16,327	(22,708)
Cash flow from / (used in) investing activities		
Purchase of subsidiaries, associates and intangible assets	(3)	(5)
Disposal of subsidiaries, associates and intangible assets[2]	58	95
Purchase of property, equipment and software	(819)	(720)
Disposal of property, equipment and software	30	23
Purchase of financial assets measured at fair value through other comprehensive income	(831)	(4,729)
Disposal and redemption of financial assets measured at fair value through other comprehensive income	668	6,150
Net (purchase) / redemption of debt securities measured at amortized cost	(2,391)	
Net (purchase) / redemption of financial assets held to maturity		168
Net cash flow from / (used in) investing activities	(3,288)	982

Table continues on the next page.

Statement of cash flows (continued)[1]

Table continued from previous page.

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

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

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

Note 1 Basis of accounting

1.1 Basis of preparation

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

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

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

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

IFRS 9, *Financial instruments*

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

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

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

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

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

→ **Refer to the 31 March 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups under "Pillar 3 disclosures" at *www.ubs.com/investors* for more information on the effect of the IFRS 9 transition on UBS's capital adequacy**

IFRS 15, *Revenue from Contracts with Customers*

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

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

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

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

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

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

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

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

Note 2 Segment reporting

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

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

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

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

Note 3 Net fee and commission income[1]

	For the quarter ended			Year-to-date	
CHF million	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
Underwriting fees	183	224	274	407	552
of which: equity underwriting fees	*88*	*118*	*148*	*206*	*310*
of which: debt underwriting fees	*95*	*106*	*125*	*201*	*242*
M&A and corporate finance fees	178	194	170	372	347
Brokerage fees	877	968	945	1,845	1,967
Investment fund fees	1,213	1,207	1,046	2,420	2,107
Portfolio management and related services	1,902	1,837	1,852	3,739	3,646
Other	440	452	457	893	915
Total fee and commission income[2]	4,793	4,882	4,744	9,675	9,533
of which: recurring	*3,161*	*3,071*		*6,232*	
of which: transaction-based	*1,611*	*1,793*		*3,404*	
of which: performance-based	*22*	*17*		*39*	
Brokerage fees paid	75	85	179	160	344
Other	342	324	270	666	541
Total fee and commission expense	417	409	449	826	885
Net fee and commission income	4,377	4,473	4,295	8,850	8,648
of which: net brokerage fees	*802*	*884*	*766*	*1,685*	*1,623*

1 Upon adoption of IFRS 15, certain brokerage fees paid in an agency capacity have been reclassified from Fee and commission expense to Fee and commission income on a prospective basis from 1 January 2018, primarily relating to third-party execution costs for exchange-traded derivative transactions and fees payable to third-party research providers on behalf of clients. In addition to the IFRS 15 changes, certain revenues, primarily distribution fees and fund management fees, have been reclassified between reporting lines to better reflect the nature of the revenues, with prior period information restated accordingly. This resulted in the following impacts: for the quarter ended 30 June 2017, CHF 83 million was reclassified from Underwriting fees to Brokerage fees and CHF 255 million was reclassified from Portfolio management and related services to Investment fund fees. For the first six months of 2017, CHF 164 million was reclassified from total Underwriting fees to Brokerage fees and CHF 499 million was reclassified from Portfolio management and related services to Investment fund fees. Also, certain expenses that are incremental and incidental to revenues have been reclassified prospectively from General and administrative expenses to Fee and commission expense to improve the alignment of transaction-based costs with the associated revenue stream, primarily impacting clearing costs, client loyalty costs, fund and custody expenses. As the impact of this reclassification was not material, prior period information was not restated. 2 Reflects third-party fee and commission income for the second quarter of 2018 of CHF 2,832 million for Global Wealth Management (first quarter of 2018: CHF 2,891 million), CHF 301 million for Personal & Corporate Banking (first quarter of 2018: CHF 300 million), CHF 801 million for Asset Management (first quarter of 2018: CHF 777 million), CHF 857 million for the Investment Bank (first quarter of 2018: CHF 900 million) and CHF 3 million for Corporate Center (first quarter of 2018: CHF 14 million).

Note 4 Other income

	For the quarter ended			Year-to-date	
CHF million	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
Associates, joint ventures and subsidiaries					
Net gains / (losses) from disposals of subsidiaries[1]	(10)	0	(18)	(10)	(22)
Share of net profits of associates and joint ventures	15	15	17	30	36
Total	5	15	(2)	20	14
Financial assets measured at fair value through other comprehensive income					
Net gains / (losses) from disposals	0	0	129	0	136
Impairments	0	0	1	0	(13)
Total	0	0	131	0	123
Net gains / (losses) from disposals of financial assets measured at amortized cost	(1)	0	(2)	0	16
Net income from properties (excluding net gains / (losses) from disposals)[2]	6	6	6	12	12
Net gains / (losses) from disposals of properties held for sale	0	0	0	0	(1)
Other	23	19	14	42	26
Total other income	34	40	147	74	190

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

Note 5 Personnel expenses

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

1 Financial advisor variable compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated on the basis of financial advisor productivity, firm tenure, assets and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment that are subject to vesting requirements. 2 Changes to the Pension Fund of UBS in Switzerland in the first quarter of 2018 resulted in a reduction in the pension obligation recognized by UBS. As a consequence, a pre-tax gain of CHF 225 million was recognized in the income statement in the first quarter of 2018, with no overall effect on total equity. Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of the first quarter 2018 report for more information.

Note 6 General and administrative expenses

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

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

Note 7 Income taxes

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

Deferred tax expenses were CHF 198 million in the second quarter of 2018 compared with CHF 133 million in the second quarter of 2017 and mainly related to the amortization of deferred tax assets previously recognized in relation to tax losses carried forward and deductible temporary differences to reflect their offset against profits for the quarter.

The current tax expense was CHF 196 million compared with CHF 194 million in the second quarter of 2017 and related to taxable profits of UBS Switzerland AG and other legal entities in the UBS Group.

Note 8 Earnings per share (EPS) and shares outstanding

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

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

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

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

Note 9 Expected credit loss measurement

a) Expected credit losses in the period

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

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

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

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

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

Economic scenarios and weights applied

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

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

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

The tables on the following pages provide information on financial instruments and certain non-financial instruments that are subject to ECL. For amortized cost instruments, the net carrying value represents the maximum exposure to credit risk, taking into account the allowance for credit losses. Financial assets measured at fair value through other comprehensive income (FVOCI) are also subject to ECL; however, unlike amortized cost instruments, the allowance does not reduce the carrying value of these financial assets. The carrying value of financial assets measured at FVOCI represents the maximum exposure to credit risk. Tables provided for 30 June 2018 and 31 March 2018 include additional detail on certain segments that have not been provided for balances as of 1 January 2018.

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

Note 9 Expected credit loss measurement (continued)

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

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

Note 9 Expected credit loss measurement (continued)

CHF million	30.6.18							
	Carrying amount				ECL allowance			
Financial instruments measured at amortized cost	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
Cash and balances at central banks	102,262	102,262	0	0	0	0	0	0
Loans and advances to banks	15,577	15,569	8	0	(4)	(2)	0	(2)
Receivables from securities financing transactions	76,450	76,450	0	0	(2)	(2)	0	0
Cash collateral receivables on derivative instruments	24,937	24,937	0	0	0	0	0	0
Loans and advances to customers	318,278	293,041	23,612	1,625	(847)	(53)	(174)	(620)
of which: Private clients with mortgage	*121,858*	*108,533*	*12,498*	*826*	*(122)*	*(9)*	*(79)*	*(34)*
of which: Real estate financing	*35,659*	*26,826*	*8,795*	*39*	*(60)*	*(3)*	*(49)*	*(8)*
of which: Large corporate clients	*10,486*	*9,841*	*555*	*91*	*(82)*	*(5)*	*(9)*	*(68)*
of which: SME clients	*9,920*	*8,055*	*1,284*	*581*	*(292)*	*(8)*	*(25)*	*(258)*
of which: Lombard	*116,795*	*116,779*	*0*	*16*	*(90)*	*(4)*	*0*	*(86)*
of which: Credit cards	*1,406*	*1,123*	*268*	*14*	*(37)*	*(6)*	*(11)*	*(20)*
of which: Commodity trade finance	*3,075*	*3,049*	*13*	*13*	*(88)*	*(4)*	*0*	*(84)*
Other financial assets measured at amortized cost	20,996	20,188	292	516	(168)	(39)	(6)	(123)
of which: Loans to financial advisors	*3,394*	*3,139*	*85*	*171*	*(124)*	*(32)*	*(2)*	*(90)*
Total financial assets measured at amortized cost[1]	558,500	532,447	23,912	2,141	(1,022)	(97)	(179)	(746)
Financial assets measured at fair value through other comprehensive income	6,941	6,941	0	0	0	0	0	0
Total on-balance sheet financial assets in scope of ECL requirements	565,441	539,388	23,912	2,141	(1,022)	(97)	(179)	(746)

	Total exposure				ECL provision			
Off-balance sheet (in scope of ECL)	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
Guarantees	18,529	17,826	506	197	(34)	(7)	(1)	(26)
of which: Large corporate clients	*3,818*	*3,462*	*218*	*138*	*(7)*	*(1)*	*0*	*(5)*
of which: SME clients	*1,262*	*996*	*221*	*45*	*(16)*	*0*	*(1)*	*(15)*
of which: Financial intermediaries and hedge funds	*7,473*	*7,464*	*9*	*0*	*(4)*	*(4)*	*0*	*0*
of which: Lombard	*2,493*	*2,493*	*0*	*0*	*0*	*0*	*0*	*0*
of which: Commodity trade finance	*2,398*	*2,342*	*43*	*13*	*(4)*	*(1)*	*0*	*(3)*
Irrevocable loan commitments	31,009	30,407	563	38	(42)	(34)	(8)	0
of which: Large corporate clients	*21,914*	*21,342*	*550*	*22*	*(34)*	*(27)*	*(7)*	*0*
Forward starting reverse repurchase and securities borrowing agreements	1,545	1,545	0	0	0	0	0	0
Committed unconditionally revocable credit lines	34,129	33,011	1,053	65	(33)	(21)	(13)	0
of which: Real estate financing	*2,676*	*2,404*	*272*	*0*	*(16)*	*(8)*	*(8)*	*0*
of which: Large corporate clients	*4,065*	*4,000*	*65*	*0*	*(1)*	*(1)*	*0*	*0*
of which: SME clients	*4,407*	*3,961*	*390*	*57*	*(8)*	*(5)*	*(2)*	*0*
of which: Lombard	*6,231*	*6,231*	*0*	*0*	*0*	*0*	*0*	*0*
of which: Credit cards	*6,980*	*6,712*	*267*	*0*	*(5)*	*(3)*	*(1)*	*0*
of which: Commodity trade finance	*2,707*	*2,703*	*0*	*5*	*(1)*	*(1)*	*0*	*0*
Irrevocable committed prolongation of existing loans	2,760	2,741	19	0	(1)	(1)	0	0
Total off-balance sheet financial instruments and other credit lines	87,972	85,531	2,142	300	(111)	(62)	(23)	(26)
Total allowances and provisions					(1,133)	(159)	(202)	(772)

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

Note 9 Expected credit loss measurement (continued)

CHF million	31.3.18							
	Carrying amount				ECL allowance			
Financial instruments measured at amortized cost	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
Cash and balances at central banks	92,800	92,800	0	0	0	0	0	0
Loans and advances to banks	13,338	13,300	38	0	(5)	(3)	0	(2)
Receivables from securities financing transactions	77,016	77,016	0	0	(2)	(2)	0	0
Cash collateral receivables on derivative instruments	24,271	24,271	0	0	0	0	0	0
Loans and advances to customers	316,195	287,107	27,543	1,545	(838)	(54)	(162)	(622)
of which: Private clients with mortgage	*120,535*	*104,614*	*15,149*	*772*	*(127)*	*(11)*	*(71)*	*(44)*
of which: Real estate financing	*36,003*	*26,415*	*9,553*	*36*	*(62)*	*(3)*	*(51)*	*(8)*
of which: Large corporate clients	*11,610*	*10,828*	*684*	*97*	*(62)*	*(7)*	*(2)*	*(54)*
of which: SME clients	*10,072*	*7,893*	*1,629*	*550*	*(281)*	*(9)*	*(24)*	*(248)*
of which: Lombard	*114,436*	*114,423*	*0*	*13*	*(86)*	*(4)*	*0*	*(82)*
of which: Credit cards	*1,334*	*1,069*	*252*	*14*	*(34)*	*(5)*	*(9)*	*(19)*
of which: Commodity trade finance	*3,008*	*2,942*	*61*	*5*	*(92)*	*(4)*	*(4)*	*(85)*
Other financial assets measured at amortized cost	19,129	18,371	271	488	(146)	(35)	(5)	(106)
of which: Loans to financial advisors	*3,326*	*3,104*	*74*	*149*	*(115)*	*(28)*	*(2)*	*(85)*
Total financial assets measured at amortized cost[1]	**542,749**	**512,865**	**27,851**	**2,033**	**(992)**	**(94)**	**(168)**	**(730)**
Financial assets measured at fair value through other comprehensive income	**6,758**	**6,758**	**0**	**0**	**0**	**0**	**0**	**0**
Total on-balance sheet financial assets in scope of ECL requirements	**549,507**	**519,623**	**27,851**	**2,033**	**(992)**	**(94)**	**(168)**	**(730)**

	Total exposure				ECL provision			
Off-balance sheet (in scope of ECL)	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
Guarantees	17,404	16,624	577	203	(40)	(7)	(2)	(31)
of which: Large corporate clients	*3,775*	*3,380*	*249*	*146*	*(10)*	*(1)*	*0*	*(9)*
of which: SME clients	*1,313*	*1,029*	*235*	*50*	*(16)*	*0*	*(1)*	*(15)*
of which: Financial intermediaries and hedge funds	*5,740*	*5,694*	*47*	*0*	*(3)*	*(3)*	*0*	*0*
of which: Lombard	*2,537*	*2,537*	*0*	*0*	*0*	*0*	*0*	*0*
of which: Commodity trade finance	*1,783*	*1,752*	*24*	*7*	*(4)*	*(1)*	*0*	*(3)*
Irrevocable loan commitments	29,746	29,181	547	18	(32)	(24)	(7)	(1)
of which: Large corporate clients	*22,234*	*21,693*	*535*	*7*	*(26)*	*(20)*	*(5)*	*(1)*
Forward starting reverse repurchase and securities borrowing agreements	1,231	1,231	0	0	0	0	0	0
Committed unconditionally revocable credit lines	35,892	33,937	1,879	75	(34)	(17)	(17)	0
of which: Real estate financing	*2,942*	*2,134*	*808*	*0*	*(12)*	*(2)*	*(9)*	*0*
of which: Large corporate clients	*4,804*	*4,700*	*99*	*5*	*0*	*0*	*0*	*0*
of which: SME clients	*4,617*	*4,065*	*496*	*56*	*(7)*	*(4)*	*(3)*	*0*
of which: Lombard	*5,960*	*5,960*	*0*	*0*	*0*	*0*	*0*	*0*
of which: Credit cards	*6,879*	*6,609*	*269*	*0*	*(5)*	*(4)*	*(1)*	*0*
of which: Commodity trade finance	*3,413*	*3,307*	*92*	*14*	*(2)*	*(1)*	*(1)*	*0*
Irrevocable committed prolongation of existing loans	1,912	1,912	0	0	(1)	(1)	0	0
Total off-balance sheet financial instruments and other credit lines	**86,184**	**82,885**	**3,003**	**296**	**(106)**	**(49)**	**(26)**	**(32)**
Total allowances and provisions					**(1,098)**	**(143)**	**(194)**	**(762)**

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

Note 9 Expected credit loss measurement (continued)

CHF million	1.1.18							
	Carrying amount				ECL allowance			
Financial instruments measured at amortized cost	Total	Stage 1	Stage 2	Stage 3[2]	Total	Stage 1	Stage 2	Stage 3
Cash and balances at central banks	87,775	87,775	0	0	0	0	0	0
Loans and advances to banks	13,719	13,701	18	0	(5)	(2)	0	(3)
Receivables from securities financing transactions	84,674	84,674	0	0	(2)	(2)	0	0
Cash collateral receivables on derivative instruments	23,434	23,434	0	0	0	0	0	0
Loans and advances to customers	310,451	281,149	27,812	1,491	(867)	(61)	(163)	(644)
of which: Private clients with mortgage	*119,560*	*103,867*	*15,006*	*686*	*(124)*	*(12)*	*(69)*	*(44)*
of which: Real estate financing	*35,896*	*26,210*	*9,657*	*29*	*(62)*	*(3)*	*(53)*	*(6)*
of which: Large corporate clients	*11,004*	*10,358*	*557*	*88*	*(69)*	*(6)*	*0*	*(63)*
of which: SME clients	*10,322*	*8,218*	*1,518*	*585*	*(287)*	*(8)*	*(23)*	*(256)*
of which: Lombard	*111,748*	*111,731*	*0*	*17*	*(84)*	*(5)*	*0*	*(79)*
Other financial assets measured at amortized cost	18,302	17,805	32	465	(136)	(29)	(1)	(106)
of which: Loans to financial advisors	*3,086*	*2,874*	*32*	*179*	*(115)*	*(28)*	*(1)*	*(87)*
Total financial assets measured at amortized cost[1]	**538,354**	**508,538**	**27,862**	**1,956**	**(1,011)**	**(95)**	**(164)**	**(752)**
Financial assets measured at fair value through other comprehensive income	**6,755**	**6,755**	**0**	**0**	**0**	**0**	**0**	**0**
Total on-balance sheet financial assets in scope of ECL requirements	**545,110**	**515,293**	**27,862**	**1,956**	**(1,011)**	**(95)**	**(164)**	**(752)**
	Total exposure				ECL provision			
Off-balance sheet (in scope of ECL)	Total	Stage 1	Stage 2	Stage 3[2]	Total	Stage 1	Stage 2	Stage 3
Guarantees	17,152	16,331	633	189	(37)	(6)	(2)	(29)
Irrevocable loan commitments	30,852	30,153	662	37	(36)	(24)	(8)	(4)
of which: Large corporate clients	*21,999*	*21,344*	*629*	*26*	*(27)*	*(19)*	*(4)*	*(4)*
Forward starting reverse repurchase and securities borrowing agreements	1,216	1,216	0	0	0	0	0	0
Committed unconditionally revocable credit lines	36,690	34,471	2,157	62	(34)	(19)	(15)	0
of which: Real estate financing	*3,103*	*2,097*	*1,007*	*0*	*(9)*	*(2)*	*(7)*	*0*
of which: SME clients	*4,770*	*4,311*	*406*	*53*	*(7)*	*(5)*	*(2)*	*0*
Irrevocable committed prolongation of existing loans	1,635	1,634	0	1	0	0	0	0
Total off-balance sheet financial instruments and other credit lines	**87,545**	**83,805**	**3,452**	**288**	**(107)**	**(49)**	**(24)**	**(33)**
Total allowances and provisions					**(1,117)**	**(144)**	**(188)**	**(785)**

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

Note 10 Fair value measurement

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

Adoption of IFRS 9

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

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

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

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

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

Note 10 Fair value measurement (continued)

a) Fair value hierarchy

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

Determination of fair values from quoted market prices or valuation techniques[1]

	30.6.18				31.3.18				31.12.17			
CHF million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value on a recurring basis												
Financial assets at fair value held for trading	96,129	12,729	3,263	112,121	89,273	14,344	1,937	105,554	108,962	15,211	1,972	126,144
of which:												
Government bills / bonds	*10,650*	*877*	*0*	*11,527*	*13,769*	*1,115*	*0*	*14,885*	*11,935*	*918*	*0*	*12,854*
Corporate and municipal bonds	*550*	*7,463*	*627*	*8,640*	*342*	*8,157*	*233*	*8,731*	*37*	*7,974*	*552*	*8,563*
Loans	*0*	*2,096*	*1,733*	*3,829*	*0*	*3,005*	*606*	*3,611*	*0*	*3,346*	*501*	*3,847*
Investment fund units	*8,716*	*1,974*	*540*	*11,230*	*6,951*	*1,560*	*704*	*9,215*	*7,223*	*1,839*	*571*	*9,632*
Asset-backed securities	*0*	*110*	*157*	*266*	*0*	*169*	*157*	*326*	*0*	*194*	*174*	*368*
Equity instruments	*76,214*	*210*	*188*	*76,612*	*68,211*	*338*	*237*	*68,787*	*79,274*	*186*	*105*	*79,565*
Financial assets for unit-linked investment contracts[2]									*10,492*	*755*	*69*	*11,316*
Derivative financial instruments	878	119,245	1,481	121,604	853	111,135	1,344	113,333	458	116,221	1,549	118,227
of which:												
Interest rate contracts	*0*	*38,555*	*226*	*38,782*	*8*	*41,153*	*35*	*41,196*	*1*	*43,913*	*135*	*44,049*
Credit derivative contracts	*0*	*1,674*	*452*	*2,127*	*0*	*1,894*	*458*	*2,352*	*0*	*2,266*	*550*	*2,816*
Foreign exchange contracts	*563*	*52,941*	*186*	*53,690*	*385*	*42,025*	*239*	*42,649*	*207*	*46,748*	*189*	*47,143*
Equity / index contracts	*7*	*24,320*	*612*	*24,939*	*21*	*24,374*	*608*	*25,002*	*16*	*21,541*	*675*	*22,232*
Commodity contracts	*0*	*1,564*	*0*	*1,564*	*0*	*1,379*	*0*	*1,379*	*0*	*1,727*	*0*	*1,727*
Brokerage receivables[3]	0	18,415	0	18,415	0	20,250	0	20,250				
Financial assets at fair value not held for trading	42,929	45,518	4,769	93,217	44,989	47,876	4,667	97,532	23,032	34,481	1,419	58,933
of which:												
Government bills / bonds	*21,853*	*3,452*	*0*	*25,305*	*24,255*	*3,646*	*0*	*27,901*	*22,062*	*3,900*	*0*	*25,961*
Corporate and municipal bonds	*958*	*21,849*	*0*	*22,807*	*760*	*23,265*	*0*	*24,025*	*765*	*20,702*	*0*	*21,467*
Financial assets for unit-linked investment contracts[2]	*19,824*	*4,735*	*8*	*24,568*	*19,655*	*4,528*	*0*	*24,183*				
Loans (including structured loans)	*0*	*7,394*	*1,904*	*9,298*	*0*	*8,353*	*1,924*	*10,277*	*0*	*9,385*	*758*	*10,143*
Structured securities financing transactions[4]	*0*	*7,556*	*65*	*7,622*	*0*	*7,621*	*140*	*7,760*	*0*	*118*	*173*	*291*
Auction-rate securities[3]	*0*	*0*	*1,832*	*1,832*	*0*	*0*	*1,713*	*1,713*				
Investment fund units	*194*	*458*	*118*	*770*	*167*	*415*	*107*	*689*	*205*	*377*	*0*	*582*
Equity instruments[5]	*101*	*16*	*484*	*602*	*151*	*47*	*369*	*567*				
Other	*0*	*57*	*357*	*414*	*0*	*1*	*413*	*415*	*0*	*0*	*489*	*489*
Financial assets measured at fair value through other comprehensive income on a recurring basis												
Financial assets measured at fair value through other comprehensive income	2,608	4,333	0	6,941	2,560	4,197	0	6,758	3,000	5,157	507	8,665
of which:												
Government bills / bonds	*2,563*	*111*	*0*	*2,675*	*2,515*	*118*	*0*	*2,634*	*2,733*	*133*	*0*	*2,866*
Corporate and municipal bonds	*44*	*390*	*0*	*434*	*45*	*428*	*0*	*473*	*121*	*1,060*	*9*	*1,189*
Asset-backed securities	*0*	*3,832*	*0*	*3,832*	*0*	*3,651*	*0*	*3,651*	*0*	*3,880*	*0*	*3,880*
Other[5]	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*146*	*85*	*499*	*730*
Non-financial assets measured at fair value on a recurring basis												
Other non-financial assets												
Precious metals and other physical commodities	3,975	0	0	3,975	4,032	0	0	4,032	4,563	0	0	4,563
Non-financial assets measured at fair value on a non-recurring basis												
Other non-financial assets[6]	0	57	9	65	0	58	9	67	0	54	42	95
Total assets measured at fair value	146,519	200,297	9,522	356,338	141,707	197,861	7,957	347,525	140,015	171,125	5,489	316,629

Note 10 Fair value measurement (continued)

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

	30.6.18				31.3.18				31.12.17			
CHF million	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial liabilities measured at fair value on a recurring basis												
Financial liabilities at fair value held for trading	26,211	5,117	88	31,416	29,657	4,999	91	34,747	26,037	4,309	117	30,463
of which:												
Government bills / bonds	*4,386*	*299*	*0*	*4,685*	*7,574*	*398*	*0*	*7,972*	*5,153*	*256*	*0*	*5,409*
Corporate and municipal bonds	*138*	*4,113*	*34*	*4,285*	*11*	*4,133*	*31*	*4,176*	*50*	*3,453*	*35*	*3,538*
Investment fund units	*785*	*214*	*2*	*1,002*	*291*	*67*	*4*	*362*	*541*	*263*	*16*	*820*
Equity instruments	*20,901*	*488*	*52*	*21,440*	*21,781*	*392*	*56*	*22,229*	*20,293*	*336*	*66*	*20,695*
Derivative financial instruments	875	115,954	2,394	119,223	837	108,437	2,671	111,945	398	112,928	2,807	116,133
of which:												
Interest rate contracts	*6*	*33,738*	*285*	*34,030*	*12*	*36,125*	*212*	*36,349*	*5*	*38,196*	*186*	*38,387*
Credit derivative contracts	*0*	*2,620*	*613*	*3,233*	*0*	*2,777*	*629*	*3,407*	*0*	*3,196*	*601*	*3,797*
Foreign exchange contracts	*585*	*52,921*	*115*	*53,620*	*343*	*41,891*	*118*	*42,353*	*213*	*45,150*	*122*	*45,485*
Equity / index contracts	*2*	*25,122*	*1,369*	*26,493*	*6*	*26,131*	*1,708*	*27,845*	*42*	*24,803*	*1,896*	*26,741*
Commodity contracts	*0*	*1,365*	*1*	*1,366*	*0*	*1,227*	*1*	*1,227*	*0*	*1,561*	*1*	*1,562*
Financial liabilities designated at fair value on a recurring basis												
Brokerage payables designated at fair value[3]	0	37,904	0	37,904	0	34,793	0	34,793				
Debt issued designated at fair value	0	46,683	10,166	56,849	0	40,213	11,846	52,059	0	38,617	10,885	49,502
Other financial liabilities designated at fair value	2	36,252	1,089	37,342	2	33,061	1,375	34,438	0	14,282	1,941	16,223
of which:												
Amounts due under unit-linked investment contracts	*0*	*24,913*	*0*	*24,913*	*0*	*24,348*	*0*	*24,348*	*0*	*11,523*	*0*	*11,523*
Structured securities financing transactions[4]	*0*	*6,533*	*0*	*6,533*	*0*	*5,812*	*1*	*5,812*	*0*	*372*	*4*	*376*
Over-the-counter debt instruments	*2*	*4,801*	*1,085*	*5,888*	*2*	*2,898*	*1,371*	*4,270*	*0*	*2,385*	*1,930*	*4,315*
Non-financial liabilities measured at fair value on a non-recurring basis												
Other non-financial liabilities	0	0	0	0	0	0	0	0	0	1	0	1
Total liabilities measured at fair value	27,087	241,910	13,737	282,734	30,495	221,504	15,984	267,983	26,435	170,138	15,750	212,323

1 Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts and are excluded from this table. The fair value of these derivatives was not material for the periods presented. 2 Financial assets for unit-linked investment contracts were reclassified from Financial assets at fair value held for trading to Financial assets at fair value not held for trading as of 1 January 2018. Refer to Note 19 for more information. 3 Comparative period information is not disclosed for financial assets and liabilities that were measured at amortized cost prior to the adoption of IFRS 9 on 1 January 2018. Refer to Note 19 for more information. 4 The increases in Structured securities financing transactions from 31 December 2017 to 31 March 2018 primarily relate to the reclassification of certain balances from amortized cost to fair value through profit or loss upon adoption of IFRS 9 on 1 January 2018. Refer to Note 19 for more information. 5 Upon adoption of IFRS 9 on 1 January 2018, equity instruments that were formerly classified as available for sale under IAS 39 were reclassified to Financial assets at fair value not held for trading. Refer to Note 19 for more information. 6 Other non-financial assets primarily consist of properties and other non-current assets held for sale, which are measured at the lower of their net carrying amount or fair value less costs to sell.

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

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

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

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

Auction rate securities

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

Brokerage receivables and payables

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

b) Valuation adjustments

Own credit

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

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

Day-1 reserves

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

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

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

Other valuation adjustments

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

Deferred day-1 profit or loss

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

c) Transfers between Level 1 and Level 2

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

Assets totaling approximately CHF 0.6 billion, which were mainly comprised of financial assets at fair value held for trading, primarily equity instruments and investment fund units, were transferred from Level 2 to Level 1 during the first six months of 2018, generally due to increased levels of trading activity observed within the market. Liabilities transferred from Level 2 to Level 1 during the first six months of 2018 were not material. Assets and liabilities transferred from Level 1 to Level 2 during the first six months of 2018 were also not material.

Note 10 Fair value measurement (continued)

d) Level 3 instruments: valuation techniques and inputs

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

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

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

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

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

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

Note 10 Fair value measurement (continued)

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

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

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

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

Sensitivity of fair value measurements to changes in unobservable input assumptions

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

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

f) Level 3 instruments: movements during the period

Significant changes in Level 3 instruments

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

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

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

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

Note 10 Fair value measurement (continued)

Movements of Level 3 instruments

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

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

Note 10 Fair value measurement (continued)

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

Note 10 Fair value measurement (continued)

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

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

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

g) Financial instruments not measured at fair value

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

Financial instruments not measured at fair value

	30.6.18		31.3.18		31.12.17	
CHF billion	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Assets						
Cash and balances at central banks	102.3	102.3	92.8	92.8	87.8	87.8
Loans and advances to banks	15.6	15.6	13.3	13.3	13.7	13.7
Receivables from securities financing transactions	76.4	76.4	77.0	77.0	89.6	89.6
Cash collateral receivables on derivative instruments	24.9	24.9	24.3	24.3	23.4	23.4
Loans and advances to customers	318.3	318.8	316.2	317.0	318.5	319.9
Other financial assets measured at amortized cost	21.0	20.7	19.1	18.9	36.9	36.7
Liabilities						
Amounts due to banks	10.2	10.2	9.0	9.0	7.5	7.5
Payables from securities financing transactions	10.1	10.1	9.2	9.2	17.0	17.0
Cash collateral payables on derivative instruments	31.8	31.8	29.4	29.4	30.2	30.2
Customer deposits	403.4	403.4	398.6	398.6	409.0	409.0
Debt issued measured at amortized cost	137.5	140.1	137.9	140.9	139.6	143.5
Other financial liabilities measured at amortized cost	6.9	6.9	5.9	5.9	36.3	36.3

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

Note 11 Derivative instruments

a) Derivative instruments

As of 30.6.18, CHF billion	Derivative financial assets	Notional values related to derivative financial assets[3]	Derivative financial liabilities	Notional values related to derivative financial liabilities[3]	Other notional values[4]
Derivative financial instruments[1,2]					
Interest rate contracts	38.8	1,169	34.0	1,093	11,322
Credit derivative contracts	2.1	81	3.2	83	0
Foreign exchange contracts	53.7	2,736	53.6	2,588	1
Equity / index contracts	24.9	446	26.5	530	101
Commodity contracts	1.6	44	1.4	39	11
Unsettled purchases of non-derivative financial instruments[5]	0.2	26	0.2	18	
Unsettled sales of non-derivative financial instruments[5]	0.3	31	0.3	20	
Total derivative financial instruments, based on IFRS netting[6]	121.6	4,533	119.2	4,371	11,435
Further netting potential not recognized on the balance sheet[7]	(106.6)		(103.1)		
of which: netting of recognized financial liabilities / assets	*(87.4)*		*(87.4)*		
of which: netting with collateral received / pledged	*(19.2)*		*(15.7)*		
Total derivative financial instruments, after consideration of further netting potential	15.1		16.2		
As of 31.3.18, CHF billion					
Derivative financial instruments[1,2]					
Interest rate contracts	41.2	1,231	36.3	1,103	11,173
Credit derivative contracts	2.4	88	3.4	93	0
Foreign exchange contracts	42.6	2,547	42.4	2,445	0
Equity / index contracts	25.0	412	27.8	474	91
Commodity contracts	1.4	39	1.2	39	9
Unsettled purchases of non-derivative financial instruments[5]	0.4	36	0.3	15	
Unsettled sales of non-derivative financial instruments[5]	0.3	28	0.5	28	
Total derivative financial instruments, based on IFRS netting[6]	113.3	4,382	111.9	4,197	11,273
Further netting potential not recognized on the balance sheet[7]	(99.3)		(96.8)		
of which: netting of recognized financial liabilities / assets	*(80.7)*		*(80.7)*		
of which: netting with collateral received / pledged	*(18.6)*		*(16.1)*		
Total derivative financial instruments, after consideration of further netting potential	14.1		15.2		
As of 31.12.17, CHF billion					
Derivative financial instruments[1]					
Interest rate contracts	44.0	1,142	38.4	1,044	10,462
Credit derivative contracts	2.8	92	3.8	98	1
Foreign exchange contracts	47.1	2,389	45.5	2,193	0
Equity / index contracts	22.2	380	26.7	487	83
Commodity contracts	1.7	33	1.6	37	8
Unsettled purchases of non-derivative financial instruments[5]	0.1	12	0.1	11	
Unsettled sales of non-derivative financial instruments[5]	0.1	15	0.1	9	
Total derivative financial instruments, based on IFRS netting[6]	118.2	4,063	116.1	3,878	10,555
Further netting potential not recognized on the balance sheet[7]	(104.2)		(98.5)		
of which: netting of recognized financial liabilities / assets	*(83.5)*		*(83.5)*		
of which: netting with collateral received / pledged	*(20.7)*		*(15.0)*		
Total derivative financial instruments, after consideration of further netting potential	14.0		17.7		

1 Derivative financial liabilities as of 30 June 2018 include CHF 0.0 billion related to derivative loan commitments (31 March 2018: CHF 0.1 billion; 31 December 2017: CHF 0.0 billion). No notional amounts related to these commitments are included in this table but they are disclosed within Note 16 under Loan commitments with a committed amount of CHF 8.1 billion as of 30 June 2018 (31 March 2018: CHF 3.9 billion; 31 December 2017: CHF 5.3 billion). 2 Upon adoption of IFRS 9 on 1 January 2018, certain forward starting repurchase and reverse repurchase agreements have been classified as measured at fair value through profit or loss and are recognized within derivative instruments. The fair value of these derivative instruments was not material as of 30 June 2018 or 31 March 2018. No notional amounts related to these instruments are included in this table, but they are disclosed within Note 16 under Forward starting transactions. 3 In cases where derivative financial instruments are presented on a net basis on the balance sheet, the respective notional values of the netted derivative financial instruments are still presented on a gross basis. 4 Other notional values relate to derivatives that are cleared through either a central counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivative instruments and was not material for all periods presented. 5 Changes in the fair value of purchased and sold non-derivative financial instruments between trade date and settlement date are recognized as derivative financial instruments. 6 Financial assets and liabilities are presented net on the balance sheet if UBS has the unconditional and legally enforceable right to offset the recognized amounts, both in the normal course of business and in the event of default, bankruptcy or insolvency of the entity and all of the counterparties, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. 7 Reflects the netting potential in accordance with enforceable master netting and similar arrangements where not all criteria for a net presentation on the balance sheet have been met. Refer to "Note 24 Offsetting financial assets and financial liabilities" in the "Consolidated financial statements" section of the Annual Report 2017 for more information.

Note 11 Derivative instruments (continued)

b) Cash collateral on derivative instruments

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

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

Note 12 Other assets and liabilities

a) Other financial assets measured at amortized cost

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

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

b) Other non-financial assets

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

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

Note 12 Other assets and liabilities (continued)

c) Other financial liabilities measured at amortized cost

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

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

d) Other financial liabilities designated at fair value

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

e) Other non-financial liabilities

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

Note 13 Debt issued designated at fair value

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

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

Note 14 Debt issued measured at amortized cost

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

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

Note 15 Provisions and contingent liabilities

a) Provisions

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

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

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

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

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

1 Comprises provisions for losses resulting from security risks and transaction processing risks. 2 Comprises provisions for losses resulting from legal, liability and compliance risks. 3 Primarily consists of personnel-related restructuring provisions of CHF 60 million as of 30 June 2018 (31 March 2018: CHF 63 million, 31 December 2017: CHF 83 million) and provisions for onerous lease contracts of CHF 183 million as of 30 June 2018 (31 March 2018: CHF 212 million, 31 December 2017: CHF 235 million). 4 Consists of reinstatement costs for leasehold improvements of CHF 90 million as of 30 June 2018 (31 March 2018: CHF 92 million, 31 December 2017: CHF 92 million) and provisions for onerous lease contracts of CHF 41 million as of 30 June 2018 (31 March 2018: CHF 42 million, 31 December 2017: CHF 41 million). 5 Includes provisions for sabbatical and anniversary awards as well as provisions for severance that are not part of restructuring provisions.

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

Information on provisions and contingent liabilities in respect of litigation, regulatory and similar matters, as a class, is included in Note 15b. There are no material contingent liabilities associated with the other classes of provisions.

b) Litigation, regulatory and similar matters

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

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

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

Note 15 Provisions and contingent liabilities (continued)

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

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

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in the "Provisions" table in Note 15a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, that have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although we therefore cannot provide a numerical estimate of the future losses that could arise from litigation, regulatory and similar matters, we believe that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. For example, the Non-Prosecution Agreement (NPA) described in item 5 of this Note, which we entered into with the US Department of Justice (DOJ), Criminal Division, Fraud Section in connection with our submissions of benchmark interest rates, including, among others, the British Bankers' Association London Interbank Offered Rate (LIBOR), was terminated by the DOJ based on its determination that we had committed a US crime in relation to foreign exchange matters. As a consequence, UBS AG pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, paid a fine and is subject to probation through January 2020. A guilty plea to, or conviction of, a crime could have material consequences for UBS. Resolution of regulatory proceedings may require us to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations, and may permit financial market utilities to limit, suspend or terminate our participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

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

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

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

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

1. Inquiries regarding cross-border wealth management businesses

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

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

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

In February 2016, the investigating judges notified UBS AG and UBS (France) S.A. that they have closed their investigation. In July 2016, UBS AG and UBS (France) S.A. received the National Financial Prosecutor's recommendation ("*réquisitoire*"). In March 2017, the investigating judges issued the trial order ("*ordonnance de renvoi*") that charges UBS AG and UBS (France) S.A., as well as various former employees, with illicit solicitation of clients on French territory and with participation in the laundering of the proceeds of tax fraud, and that transfers the case to court. The trial is scheduled to start in October 2018. In October 2017, the Investigation Chamber of the Court of Appeals decided that UBS (France) S.A. shall not be constituted as a civil party in the guilty plea proceedings against the former UBS (France) S.A. Head of Front Office. UBS (France) S.A. has appealed this decision to the French Supreme Court ("*Cour de cassation*"). The appeal is pending, although the criminal court subsequently found the individual's guilty plea to be invalid.

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

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

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

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

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

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

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

Note 15 Provisions and contingent liabilities (continued)

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

Mortgage-related regulatory matters: In 2014, UBS received a subpoena from the US Attorney's Office for the Eastern District of New York issued pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), which seeks documents and information related to UBS's RMBS business from 2005 through 2007. In 2015, the Eastern District of New York identified a number of transactions that are the focus of their inquiry, and subsequently provided a revised list of transactions. UBS has provided information in response to this subpoena. UBS has also responded to inquiries from both the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) (who is working in conjunction with the US Attorney's Office for Connecticut and the DOJ) and the US Securities and Exchange Commission (SEC) relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through 2014. UBS is cooperating with the authorities in these matters.

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

3. Madoff

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

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

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

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

4. Puerto Rico

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

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

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

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

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

Note 15 Provisions and contingent liabilities (continued)

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

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

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

Foreign exchange-related regulatory matters: Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes our precious metals and related structured products businesses. Numerous authorities commenced investigations concerning possible manipulation of foreign exchange markets and precious metals prices. In 2014 and 2015, UBS reached settlements with the UK Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission (CFTC) in connection with their foreign exchange investigations, FINMA issued an order concluding its formal proceedings relating to UBS's foreign exchange and precious metals businesses, and the Board of Governors of the Federal Reserve System (Federal Reserve Board) and the Connecticut Department of Banking issued a Cease and Desist Order and assessed monetary penalties against UBS AG. In addition, the DOJ's Criminal Division (Criminal Division) terminated the 2012 Non-Prosecution Agreement (NPA) with UBS AG related to UBS's submissions of benchmark interest rates and UBS AG pleaded guilty to one count of wire fraud, paid a fine and is subject to probation through January 2020. UBS has ongoing obligations to cooperate with these authorities and to undertake certain remediation measures. UBS has also been granted conditional immunity by the Antitrust Division of the DOJ (Antitrust Division) and by authorities in other jurisdictions in connection with potential competition law violations relating to foreign exchange and precious metals businesses. Investigations relating to foreign exchange and precious metals matters by certain authorities remain ongoing notwithstanding these resolutions.

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

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

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

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

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

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

LIBOR and other benchmark-related regulatory matters: Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the UK Serious Fraud Office (SFO), the Monetary Authority of Singapore (MAS), the Hong Kong Monetary Authority (HKMA), FINMA, various state attorneys general in the US and competition authorities in various jurisdictions, have conducted or are continuing to conduct investigations regarding potential improper attempts by UBS, among others, to manipulate LIBOR and other benchmark rates at certain times. In 2012, UBS reached settlements relating to benchmark interest rates with the FSA, the CFTC and the Criminal Division of the DOJ, and FINMA issued an order in its proceedings with respect to UBS relating to benchmark interest rates. In addition, UBS entered into settlements with the European Commission (EC) and with the Swiss Competition Commission (WEKO) regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives. UBS has ongoing obligations to cooperate with the authorities with whom we have reached resolutions and to undertake certain remediation measures with respect to benchmark interest rate submissions. UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ and WEKO, in connection with potential antitrust or competition law violations related to certain rates. However, UBS has not reached a final settlement with WEKO as the Secretariat of WEKO has asserted that UBS does not qualify for full immunity. Investigations by certain governmental authorities remain ongoing notwithstanding these resolutions.

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

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

Note 15 Provisions and contingent liabilities (continued)

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

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

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

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

6. Swiss retrocessions

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

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

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

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

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

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

Note 16 Guarantees, commitments and forward starting transactions

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

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

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

Note 17 Changes in organization

Following the announcement by the China Securities Regulatory Commission that foreign investors will be permitted to increase their ownership percentages in China affiliates to a cap of 51%, and may be allowed to increase their ownership up to 100% in 2021, UBS submitted in May 2018 a preliminary application to increase the shareholding in its China affiliate, UBS Securities Co. Limited (UBSS), from 24.99% to 51%. The transaction is subject to completion of a share purchase from existing shareholders and regulatory approval. If UBS acquires majority ownership, UBS would consolidate its investment in UBSS under IFRS and would be required to remeasure its current 24.99% holding in UBSS at fair value, likely resulting in a loss.

Note 18 Currency translation rates

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

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

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

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

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

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

Update to Note 1a) 3) Financial instruments

b. Classification, measurement and presentation

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

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

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

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

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

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

Business model assessment

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

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

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

Critical accounting estimates and judgments

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

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

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

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

Critical accounting estimates and judgments

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

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

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

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

Financial assets classification		Significant items included	Measurement and presentation
Measured at amortized cost		A debt financial asset is measured at amortized cost if: – 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) – fee and lease receivables.	Measured at amortized cost using the effective interest rate (EIR) method less allowances for expected credit losses (ECL) (refer to items 3c and 3g in this Note for more information). 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 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. 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. This classification primarily includes debt securities and certain asset-backed securities held as HQLA for which the contractual cash flows meet the SPPI conditions.	Measured at fair value with unrealized gains and losses reported in *Other comprehensive income*, net of applicable income taxes, until such investments are derecognized (when sold, collected or otherwise disposed). Upon derecognition, any accumulated balances in *Other comprehensive income* are reclassified to the income statement and reported within *Other income.* 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.

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

<table>
<tr><th colspan="2">Financial assets classification</th><th>Significant items included</th><th>Measurement and presentation</th></tr>
<tr><td rowspan="2">Measured at FVTPL</td><td>Held for trading</td><td>Financial assets held for trading include:
– all derivatives with a positive replacement value, except those that are designated as effective hedging instruments
– other financial assets acquired principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Included in this category are debt instruments (including those in the form of securities, money market paper and traded corporate and bank loans) and equity instruments.</td><td rowspan="2">Measured at fair value with changes recognized in profit or loss.

Changes in fair value, initial transaction costs and gains and losses realized on disposal or redemption are recognized in Other net income from fair value changes on financial instruments, except interest and dividend income on instruments other than derivatives (refer to item 3c in this Note for more information), interest on derivatives designated as hedging instruments in certain types of hedge accounting relationships and forward points on certain long- and short-duration foreign exchange contracts, which are reported in Net interest income.

Derivative assets are generally presented as Derivative financial instruments, except those exchange-traded and OTC-cleared derivatives that are considered to be settled on a daily basis or qualify for netting and are presented within Cash collateral receivables on derivative instruments.

The presentation of fair value changes on derivatives that are designated and effective as hedging instruments depends on the type of hedge relationship (refer to "Note 1a) Significant accounting policies" item 3k in the "Consolidated financial statements" section of the Annual Report 2017 for more information).

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 the Group's balance sheet.</td></tr>
<tr><td>Mandatorily measured at FVTPL – Other</td><td>A financial asset is mandatorily measured at FVTPL if:
– 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
– the contractual terms give rise to cash flows that are not SPPI, and / or
– it is not held for trading.

The following financial assets are mandatorily measured at FVTPL:
– 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.</td></tr>
</table>

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

Financial liabilities classification		Significant items included	Measurement and presentation
Measured at amortized cost		This classification includes: – 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 – Cash collateral payables on derivative instruments.	Measured at amortized cost using the EIR method. 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. When the financial liability at amortized cost is derecognized, the gain or loss is recognized in the income statement. Amortized cost liabilities are presented on the balance sheet primarily as *Amounts due to banks, Customer deposits, Payables from securities financing transactions* and *Debt issued measured at amortized cost.* Amounts arising from ETD and certain OTC derivatives cleared through central clearing counterparties that are either considered to be daily settled or qualify for netting (refer to "Note 1a) Significant accounting policies" items 3d and 3j in the "Consolidated financial statements" section of the Annual Report 2017 for more information) are presented within *Cash collateral payables on derivative instruments.*
Measured at fair value through profit or loss	Held for trading	Financial liabilities held for trading include: – All derivatives with a negative replacement value (including certain loan commitments) except those that are designated and effective hedging instruments – Obligations to deliver financial instruments, such as debt and equity instruments, that UBS has sold to third parties, but does not own (short positions).	Measurement of financial liabilities classified at FVTPL follows the same principles as for financial assets classified at FVTPL, except that the amount of change in the fair value of the financial liability that is attributable to changes in UBS's own credit risk is presented in OCI. Financial liabilities measured at FVTPL are presented as *Financial liabilities at fair value held for trading* and *Other financial liabilities designated at fair value*, respectively, except for brokerage payables and debt issued, which are presented as separate sub-totals on the Group's balance sheet. Derivative liabilities are generally presented as *Derivative financial instruments*, except those exchange-traded and OTC-cleared derivatives that are considered to be settled on a daily basis or qualify for netting and are presented within *Cash collateral payables on derivative instruments.* 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. Derivatives that are designated and effective as hedging instruments are also measured at fair value. The presentation of fair value changes differs depending on the type of hedge relationship (refer to "Note 1a) Significant accounting policies" item 3k in the "Consolidated financial statements" section of the Annual Report 2017 for more information).
	Designated at FVTPL	UBS designated at FVTPL the following financial liabilities: – Issued hybrid debt instruments that primarily include equity-linked, credit-linked and rates-linked bonds or notes – Issued debt instruments managed on a fair value basis – 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 – Loan commitments that are hedged predominantly with credit derivatives and those managed on a fair value basis – Amounts due under unit-linked investment contracts whose cash flows are linked to financial assets measured at FVTPL and eliminate an accounting mismatch – Brokerage payables, which arise in conjunction with brokerage receivables and are measured at FVTPL to achieve measurement consistency.	

c. Interest income and expense

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

In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortized cost of a financial liability, based on estimated future cash flows that take into account all contractual cash flows, except those related to ECL. However, when a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the amortized cost of the instrument. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the amortized cost of the instrument.

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

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

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

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

→ **Refer to "Note 1a) Significant Accounting Policies" in the "Consolidated financial Statements" section of the Annual Report 2017 for more information**

g. Expected credit losses

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

Recognition of expected credit losses

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

ECL are recognized on the following basis:

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

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

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

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

Default and credit impairment

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

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

Measurement of expected credit losses

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

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

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

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

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

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

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

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

Scenarios and scenario weights

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

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

Macroeconomic and other factors

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

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

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

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

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

ECL measurement period

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

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

Significant increase in credit risk

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

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

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

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

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

SICR thresholds

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

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

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

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

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

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

Critical accounting estimates and judgments

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

Determination of a significant increase of credit risk

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

Scenarios, scenario weights and macroeconomic factors

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

ECL measurement period

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

Modeling and management adjustments

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

h. Restructured and modified financial assets

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

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

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

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

o. Loan commitments

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

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

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

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

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

p. Financial guarantee contracts

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

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

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

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

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

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

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

19.2 Adoption of IFRS 9

19.2.1 Governance

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

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

19.2.2 Retrospective amendments to UBS Group balance sheet presentation

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

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

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

The table below illustrates the new balance sheet presentation of assets and liabilities as of 31 December 2017 in comparison with the presentation in the Annual Report 2017. The presentation of the components of equity has not changed, and therefore, for illustration purposes, total liabilities and equity are presented in a single line in the table. The table does not reflect any of the effects of adopting the classification and measurement requirements of IFRS 9, which are presented in section 19.2.3 under *Reclassification and remeasurement of carrying amounts and recognition of ECL upon adoption of IFRS 9.*

Retrospective amendments to UBS Group balance sheet presentation as of 31 December 2017

CHF million		31.12.17	31.12.17
Assets	References	Former presentation	Revised presentation
Cash and balances at central banks		87,775	87,775
Loans and advances to banks (formerly: Due from banks)		13,739	13,739
Receivables from securities financing transactions (new line)	1		89,633
Cash collateral on securities borrowed (newly included in Receivables from securities financing transactions)	1	12,393	
Reverse repurchase agreements (newly included in Receivables from securities financing transactions)	1	77,240	
Cash collateral receivables on derivative instruments		23,434	23,434
Loans and advances to customers (formerly: Loans)	2	319,568	318,509
Financial assets held to maturity (superseded)	3	9,166	
Other financial assets measured at amortized cost (new line)	2,3,7		36,861
Total financial assets measured at amortized cost			569,950
Financial assets at fair value held for trading (formerly: Trading portfolio assets)	4	130,707	126,144
of which: assets pledged as collateral that may be sold or repledged by counterparties		*35,363*	*35,363*
Derivative financial instruments (formerly: Positive replacement values)		118,227	118,227
Brokerage receivables (new line, formerly included within Other assets)		n/a	n/a
Financial assets at fair value not held for trading (new line)	5		58,933
Financial assets designated at fair value	5	58,933	
Total financial assets measured at fair value through profit or loss			303,304
Financial assets available for sale (superseded)	6	8,665	
Financial assets measured at fair value through other comprehensive income (new line)	6		8,665
Investments in associates		1,018	1,018
Property, equipment and software		8,829	8,829
Goodwill and intangible assets		6,398	6,398
Deferred tax assets		9,844	9,844
Other non-financial assets (new line)	4,7		7,633
Other assets (superseded)	7	29,706	
Total assets		915,642	915,642
Liabilities			
Amounts due to banks		7,533	7,533
Payables from securities financing transactions (new line)	8		17,044
Cash collateral on securities lent (newly included in Payables from securities financing transactions)	8	1,789	
Repurchase agreements (newly included in Payables from securities financing transactions)	8	15,255	
Cash collateral payables on derivative instruments		30,247	30,247
Customer deposits (formerly: Due to customers)		408,999	408,999
Debt issued measured at amortized cost		139,551	139,551
Other financial liabilities measured at amortized cost (new line)	10		36,337
Total financial liabilities measured at amortized cost			639,711
Financial liabilities at fair value held for trading (formerly: Trading portfolio liabilities)		30,463	30,463
Derivative financial instruments (formerly: Negative replacement values)		116,133	116,133
Brokerage payables designated at fair value (new line, formerly included within Other liabilities)		n/a	n/a
Financial liabilities designated at fair value (superseded)	9	54,202	
Debt issued designated at fair value (new line)	9		49,502
Other financial liabilities designated at fair value (new line)	9,10		16,223
Total financial liabilities measured at fair value through profit or loss			212,322
Provisions		3,133	3,133
Other non-financial liabilities (new line)	10		9,205
Other liabilities (superseded)	10	57,064	
Total liabilities		864,371	864,371
Total liabilities and equity		915,642	915,642

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

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

Table ref.	Description of presentation changes applied retrospectively to the balance sheet as of 31 December 2017
Balance sheet assets	
1	Cash collateral on securities borrowed of CHF 12,393 million and reverse repurchase agreements of CHF 77,240 million as of 31 December 2017 are now presented as a total of CHF 89,633 within a single line, *Receivables from securities financing transactions*.
2	Finance lease receivables of CHF 1,059 million as of 31 December 2017, previously presented within *Loans*, are now presented within *Other financial assets measured at amortized cost*.
3	*Financial assets held to maturity* measured at amortized cost of CHF 9,166 million as of 31 December 2017 are now presented within *Other financial assets measured at amortized cost*.
4	Precious metal positions of CHF 4,563 million as of 31 December 2017, previously presented in *Trading portfolio assets*, are now presented within *Other non-financial assets*.
5	Financial assets designated at fair value through profit or loss of CHF 58,933 million as of 31 December 2017, previously presented in a separate line, are now presented within *Financial assets at fair value not held for trading*.
6	Debt and equity instruments of CHF 8,665 million as of 31 December 2017, previously presented in *Financial assets available for sale*, are now presented within *Financial assets measured at fair value through other comprehensive income*.
7	The reporting line *Other assets* has been split into two new reporting lines, *Other financial assets measured at amortized cost* and *Other non-financial assets*. – Assets of CHF 29,706 million as of 31 December 2017, previously presented within *Other assets*, are now presented within *Other assets measured at amortized cost* (CHF 26,636 million) and *Other non-financial assets* (CHF 3,070 million). – Financial assets now presented within *Other financial assets measured at amortized cost* include brokerage receivables of CHF 19,080 million, debt securities of CHF 9,166 million, loans to financial advisors of CHF 3,118 million and other assets amounting to CHF 5,497 million. Refer to Note 12 a) for more information. – Refer to Note 12 b) for more information on assets now presented within *Other non-financial assets.*
Balance sheet liabilities	
8	Cash collateral on securities lent of CHF 1,789 million and repurchase agreements of CHF 15,255 million as of 31 December 2017 are now presented within a single line, *Payables from securities financing transactions*.
9	Financial liabilities designated at fair value through profit or loss of CHF 54,202 million as of 31 December 2017 are now presented within *Debt issued designated at fair value* (CHF 49,502 million) and *Other financial liabilities designated at fair value* (CHF 4,700 million).
10	The reporting line *Other liabilities* has been split into three new reporting lines, *Other financial liabilities measured at amortized cost*, *Other financial liabilities designated at fair value* and *Other non-financial liabilities*. – Liabilities amounting to CHF 57,064 million as of 31 December 2017, previously presented within *Other liabilities,* are now presented within *Other financial liabilities measured at amortized cost* (CHF 36,337 million, thereof CHF 29,646 million brokerage payables), within *Other financial liabilities designated at fair value* (amounts due under unit-linked investment contracts of CHF 11,523 million) and within *Other non-financial liabilities* (CHF 9,205 million). – Refer to note 12 c) for more information on financial liabilities now presented within *Other financial liabilities measured at amortized cost.* – Refer to note 12 d) for more information on financial liabilities now presented within *Other financial liabilities designated at fair value.* – Refer to note 12 e) for more information on liabilities now presented within *Other non-financial liabilities.*

19.2.3 Transition to IFRS 9 as of 1 January 2018

Transition to Classification and measurement requirements

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

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

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

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

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

Effect on UBS Group income statement presentation

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

Effect on UBS Group Statement of cash flows

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

Transition to expected credit loss requirements

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

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

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

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

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

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

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

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

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

Economic scenarios and weights applied

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

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

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

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

The following represent the most significant macroeconomic factors for UBS and could substantially change the estimated ECL:
– GDP growth rates, given their significant effect on borrowers' performance
– House price indices, given their significant effect on mortgage collateral valuations
– Unemployment rates, given their significant effect on private clients' ability to meet contractual obligations
– Interest rates, given their significant effect on the counterparties' abilities to service their debt
– Equity indices, given their relevance for equity collateral valuation
– Consumer price indices, given their overall relevance for companies' performance, private clients' purchasing power and economic stability.

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

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

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

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

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

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

In this scenario, inflation in the US accelerates rapidly, leading to a sharp rise in short-term interest rates, similar to Switzerland. GDP growth averages a similar pace to Switzerland over three years, while equity and house prices also fall by a broadly similar degree to their Swiss equivalents. In the rest of the world, growth is also weighed down, particularly in more vulnerable emerging markets such as Russia, Turkey and Brazil, as interest rates and credit spreads rise sharply.

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

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

ECL measurement period at transition

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

SICR determination at transition

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

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

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

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

Other portfolios, including private mortgages and commercial SME clients: The Basel III rating models for other key portfolios in Personal & Corporate Banking, in particular for private client mortgages and commercial clients in the small and medium-sized enterprise (SME) segment, have recently been subject to a major redesign. While the methodology remained essentially the same and the calibration to the portfolios' average TTC PD value unchanged, the effect on the stage allocation is significant. This is due to the fact that the introduction of new models has led to a broader and different distribution of borrowers across the rating spectrum; while there was no material effect on those counterparties with an uplift in their rating, some of those that had a downward shift in their rating triggered the SICR threshold and a reclassification into stage 2 at transition.

The table on the following pages provides a detailed overview of the IFRS 9 transition effects as of 1 January 2018. This includes:
– reclassification of IAS 39 carrying amounts to the new categories applicable under IFRS 9;
– remeasurement of carrying amounts due to reclassification (any remeasurement to fair value and / or reversal of IAS 39 allowances or IAS 37 provisions for assets moving from amortized cost to fair value); and
– recognition of IFRS 9 ECL for in-scope assets, off-balance sheet positions and other credit lines.

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

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

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

	31.12.2017		1.1.2018			
CHF million	Classification under IAS 39	Carrying amount (IAS 39)	Reclassification (of IAS 39 carrying amounts)	Remeasurement due to reclassification incl. reversal of IAS 39 / IAS 37 allowances / provisions	Recognition of ECL (IFRS 9)	Carrying amount (IFRS 9)
Assets						
Cash and balances at central banks	Loans and receivables	87,775			0	87,775
Loans and advances to banks	Loans and receivables	13,739	(17)		(3)[12]	13,719
to: Brokerage receivables	*Loans and receivables*		*(17)[1]*			
Receivables from securities financing transactions	Loans and receivables	89,633	(4,957)		(2)[12]	84,674
to: Financial assets at fair value not held for trading	*Loans and receivables*		*(4,957)[2]*			
Cash collateral receivables on derivative instruments	Loans and receivables	23,434			0	23,434
Loans and advances to customers	Loans and receivables	318,509	(7,822)	0	(235)[12]	310,451
to: Financial assets at fair value not held for trading	*Loans and receivables*		*(2,678)[3]*			
to: Brokerage receivables	*Loans and receivables*		*(4,691)[1]*			
to: Financial assets at fair value held for trading	*Loans and receivables*		*(468)[4]*			
from: Financial assets at fair value not held for trading	*FVTPL (designated)*		*8[5]*	*0*		
from: Financial assets at fair value held for trading	*FVTPL (held for trading)*		*6[5]*			
Other financial assets measured at amortized cost	Loans and receivables, held to maturity	36,861	(18,525)	0	(35)[12]	18,302
to: Brokerage receivables	*Loans and receivables*		*(19,080)[1]*			
from: Financial assets measured at fair value through other comprehensive income	*Available-for-sale*		*555[6]*	*0*		
Total financial assets measured at amortized cost		569,950	(31,321)	0	(275)	538,354
Financial assets at fair value held for trading	FVTPL (held for trading)	126,144	(10,854)	(15)		115,275
to: Loans and advances to customers	*FVTPL (held for trading)*		*(6)[5]*			
to: Financial assets at fair value not held for trading	*FVTPL (held for trading)*		*(11,316)[7]*			
from: Loans and advances to customers	*Loans and receivables*		*468[4]*	*(15)[4]*		
of which: assets pledged as collateral that may be sold or repledged by counterparties	*FVTPL (held for trading)*	*35,363*				*35,363*
Derivative financial instruments	FVTPL (derivatives)	118,227				118,227
Brokerage receivables	Loans and receivables		23,787			23,787
from: Loans and advances to banks	*Loans and receivables*		*17[1]*			
from: Loans and advances to customers	*Loans and receivables*		*4,691[1]*			
from: Other financial assets measured at amortized cost	*Loans and receivables*		*19,080[1]*			
Financial assets at fair value not held for trading	FVTPL (designated)	58,933[9]	20,297	(287)		78,943
to: Loans and advances to customers	*FVTPL (designated)*		*(8)[5]*			
from: Financial assets at fair value held for trading	*FVTPL (held for trading)*		*11,316[7]*			
from: Receivables from securities financing transactions	*Loans and receivables*		*4,957[2]*	*(1)*		
from: Loans and advances to customers	*Loans and receivables*		*2,678[3]*	*(286)[3]*		
from: Financial assets measured at fair value through other comprehensive income	*Available-for-sale*		*1,356[8]*			
Total financial assets measured at fair value through profit or loss		303,304	33,231	(303)		336,232
Financial assets measured at fair value through other comprehensive income	Available-for-sale	8,665	(1,911)			6,755[10]
to: Other financial assets measured at amortized cost	*Available-for-sale*		*(555)[6]*			
to: Financial assets at fair value not held for trading	*Available-for-sale*		*(1,356)[8]*			
Investments in associates		1,018				1,018
Property, equipment and software		8,829				8,829
Goodwill and intangible assets		6,398				6,398
Deferred tax assets		9,844		58[11]	64[11]	9,967
Other non-financial assets		7,633				7,633
Total assets		915,642		(245)	(211)	915,187

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

Reclassification and remeasurement of carrying amounts and recognition of ECL upon adoption of IFRS 9 (continued)

	31.12.2017		1.1.2018			
CHF million	Classification under IAS 39	Carrying amount (IAS 39)	Reclassification (of IAS 39 carrying amounts)	Remeasurement due to reclassification incl. reversal of IAS 39 / IAS 37 allowances / provisions	Recognition of ECL (IFRS 9)	Carrying amount (IFRS 9)
Liabilities						
Amounts due to banks	Amortized cost	7,533				7,533
Payables from securities financing transactions	Amortized cost	17,044	(5,081)			11,963
to: Other financial liabilities designated at fair value	*Amortized cost*		*(5,081)[13]*			
Cash collateral payables on derivative instruments	Amortized cost	30,247				30,247
Customer deposits	Amortized cost	408,999	(5,268)			403,731
to: Brokerage payables designated at fair value	*Amortized cost*		*(5,268)[14]*			
Debt issued measured at amortized cost	Amortized cost	139,551				139,551
Other financial liabilities measured at amortized cost	Amortized cost	36,337	(29,646)	(4)		6,686
to: Brokerage payables designated at fair value	*Amortized cost*		*(29,646)[14]*			
Derecognition: deferred fees on other loan commitments	*Amortized cost*			*(4)[4]*		
Total financial liabilities measured at amortized cost		639,711	(39,996)	(4)		599,712
Financial liabilities at fair value held for trading	FVTPL (held for trading)	30,463				30,463
Derivative financial instruments	FVTPL (derivatives)	116,133		57		116,191
Recognition: Loan commitments	*Amortized cost – off-balance sheet*			*60[4]*		
Derecognition: Loan commitments	*FVTPL (derivatives)*			*(2)[5]*		
Brokerage payables designated at fair value	Amortized cost		34,915			34,915
from: Customer deposits	*Amortized cost*		*5,268[14]*			
from: Other financial liabilities measured at amortized cost	*Amortized cost*		*29,646[14]*			
Debt issued designated at fair value	FVTPL (designated)	49,502				49,502
Other financial liabilities designated at fair value	FVTPL (designated)	16,223	5,081	(5)		21,300
from: Payables from securities financing transactions	*Amortized cost*		*5,081[13]*	*(5)[13]*		
Total financial liabilities measured at fair value through profit or loss		212,322	39,996	53		252,370
Provisions		3,133			74[12]	3,207
Other non-financial liabilities		9,205				9,205
Total liabilities		864,371		49	74	864,494
Equity						
Share capital		385				385
Share premium		25,942				25,942
Treasury shares		(2,133)				(2,133)
Retained earnings		32,752	72[8,15]	(293)	(284)	32,247
Other comprehensive income recognized directly in equity, net of tax		(5,732)	(72)[8,15]			(5,804)
Equity attributable to shareholders		51,214	0	(293)[15]	(284)[15]	50,637
Equity attributable to non-controlling interests		57				57
Total equity		51,271	0	(293)	(284)	50,694
Total liabilities and equity		915,642	0	(245)	(211)	915,187

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

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

Table ref.	Description of classification or remeasurement changes on adoption of IFRS 9 as of 1 January 2018
1	Certain customer and prime brokerage receivable balances, in the Investment Bank and Global Wealth Management, fail the solely payments of principal and interest (SPPI) criteria for measurement at amortized cost. These include CHF 4,691 million previously included within *Loans and advances to customers*, CHF 17 million from *Loans and advances to banks* and CHF 19,080 million previously included within *Other financial assets measured at amortized cost*. The receivables are managed under a business model whose objective is to hold the assets to collect contractual cash flows. However, the reported receivables represent an aggregation of cash receivable and payable balances that form a single unit of account at the client level and generate a return that does not constitute consideration for the time value of money, credit risk and other basic lending risks. The SPPI criterion is therefore not met and under IFRS 9 the receivables are mandatorily measured at FVTPL and separately presented as *Brokerage receivables*. There was no difference between the amortized cost carrying amount and the fair value as of 1 January 2018 and therefore no remeasurement gain or loss has been recognized.
2	Based on the business model assessment under IFRS 9, certain reverse repurchase agreements with a carrying amount of CHF 4,957 million as of 31 December 2017 were determined to be managed on a fair value basis and were therefore reclassified from amortized cost to FVTPL measurement under IFRS 9. The carrying value has been reclassified from *Receivables from securities financing transactions* to *Financial assets at fair value not held for trading* as of 1 January 2018. A remeasurement loss of CHF 1 million has been recorded in *Retained earnings*. 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 has elected to refine the assets classified within *Financial assets at fair value held for trading* to carve out those that are segregated from UBS's trading activities, where UBS's role is primarily to manage the assets on a fair value basis on behalf of others. Instead, such assets will be presented alongside others managed on a fair value basis within *Financial assets at fair value not held for trading*. As a consequence of this refinement, UBS has reclassified assets held to hedge unit-linked investment contracts of CHF 11,316 million from *Financial assets at fair value held for trading* to *Financial assets at fair value not held for trading* as of 1 January 2018. No remeasurement gain or loss has been recognized.

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

Table ref.	Description of classification or remeasurement changes on adoption of IFRS 9 as of 1 January 2018 (continued)
8	UBS holds certain global and local liquidity buffers that were determined to be managed on a fair value basis as management utilizes fair value information for reporting and decision making purposes. Therefore, assets previously classified as available for sale under IAS 39 with a carrying amount of CHF 620 million as of 31 December 2017 were reclassified to *Financial assets at fair value not held for trading*. An unrealized gain of CHF 5 million related to these positions was reclassified from *Other comprehensive income* to *Retained earnings*. 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 58,933 million as of 31 December 2017 are no longer designated as such under IFRS 9, as it was determined that these assets were either held in a business model that is managed on a fair value basis, did not meet the SPPI criteria, or did meet the SPPI criteria and are held in a hold to collect business model. Of the total, assets with a carrying amount of CHF 58,924 million are now mandatorily measured at FVTPL and included within *Financial assets at fair value not held for trading*. The remaining assets with a carrying amount of CHF 8 million have been de-designated and were reclassified to *Loans and advances to customers* given a change in business model to hold to collect (refer to footnote 5).
10	Certain debt instruments with a carrying amount of CHF 6,755 million as of 31 December 2017 were formerly classified as available for sale under IAS 39 and are measured at FVOCI under IFRS 9. These instruments include US government bonds and US government sponsored mortgage-backed securities and other debt that are held in a business model whose objective is achieved by both collecting contractual cash flows and selling, and that meet the SPPI criteria. These positions are now presented within *Financial assets measured at fair value through other comprehensive income*.
11	Deferred tax assets of CHF 122 million have been recognized in connection with the adoption of IFRS 9. Of the total effect, CHF 64 million relates to the recognition of ECL and CHF 58 million relates to classification and measurement changes upon adoption of IFRS 9.
12	Upon adoption of the ECL requirements of IFRS 9, a transition impact of CHF 348 million was recognized, consisting of CHF 144 million of stage 1 allowances, CHF 188 million of stage 2 allowances and an incremental increase in stage 3 allowances of CHF 16 million. The effect was mainly recognized within *Loans and advances to customers* (CHF 235 million), with effects also recognized in *Other financial assets measured at amortized cost* (CHF 35 million), *Loans and advances to banks* (CHF 3 million), *Receivables from securities financing transactions* (CHF 2 million) and *Provisions* (CHF 74 million).
13	Certain repurchase agreements with a carrying amount of CHF 5,081 million as of 31 December 2017 have been designated at FVTPL as they are managed in conjunction with reverse repurchase agreements that are mandatorily measured at FVTPL under IFRS 9. These amounts are included within *Other financial liabilities designated at fair value* as of 1 January 2018. A remeasurement gain of CHF 5 million has been recognized in *Retained earnings* as of 1 January 2018 related to this reclassification. 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 19 Transition to IFRS 9 as of 1 January 2018 (continued)

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

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

Reconciliation of allowances and provisions on adoption of IFRS 9

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

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

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

IFRS 9 transition impact on other comprehensive income and retained earnings as of 1 January 2018

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

IFRS 9 impact on other comprehensive income and retained earnings

CHF million	
Other comprehensive income recognized directly in equity, net of tax	
Reclassification of financial assets (available for sale to fair value through profit or loss) – equity instruments	(199)
Reclassification of financial assets (available for sale to fair value through profit or loss) – debt instruments	(5)
Tax (expense) / benefit	131
Total change in other comprehensive income	(72)
Retained earnings	
Remeasurement of financial assets (reclassified from amortized cost to fair value through profit or loss)	(303)
Reclassification of financial assets (reclassified from available for sale to fair value through profit or loss)	204
Recognition of ECL for on-balance sheet financial assets	(275)
Remeasurement of financial liabilities (reclassified from amortized cost to designated at fair value through profit or loss)	5
Recognition of derivative loan commitments measured at fair value through profit or loss	(60)
Derecognition of liabilities for deferred fees on other loan commitments	4
Derecognition of derivative loan commitments measured at fair value through profit or loss	2
Recognition of ECL for off-balance sheet positions	(74)
Tax (expense) / benefit	(9)
Total change in retained earnings	(505)
Total change in equity due to the adoption of IFRS 9	(577)

UBS AG interim consolidated financial information (unaudited)

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

Comparison UBS Group AG consolidated versus UBS AG consolidated

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

– Assets, liabilities, operating income, operating expenses and operating profit before tax relating to UBS Group AG and its directly held subsidiaries, including UBS Business Solutions AG, are reflected in the consolidated financial statements of UBS Group AG but not of UBS AG. UBS AG's assets, liabilities, operating income and operating expenses related to transactions with UBS Group AG and its directly held subsidiaries, including UBS Business Solutions AG and other shared services subsidiaries, are not subject to elimination in the UBS AG consolidated financial statements, but are eliminated in the UBS Group AG consolidated financial statements. UBS Business Solutions AG and other shared services subsidiaries of UBS Group charge other legal entities within the Group for services provided, including a markup on costs incurred.
– UBS Group AG consolidated equity was CHF 0.8 billion higher compared to the equity of UBS AG consolidated, mainly driven by higher dividends paid by UBS AG to UBS Group AG compared with the dividend distributions of UBS Group AG, as well as higher retained earnings in the UBS Group AG consolidated financial statements, largely related to the aforementioned markup charged by shared services subsidiaries of UBS Group AG to other legal entities within the Group. UBS Group AG is also the grantor of the majority of the compensation plans of the Group and recognizes share premium for equity-settled awards granted, largely offset by the treasury shares held to hedge the related share delivery obligation and those acquired as part of our share repurchase program. These effects were partly offset by additional share premium recognized at the UBS AG consolidated level related to the establishment of UBS Group AG and UBS Business Solutions AG, a wholly owned subsidiary of UBS Group AG.
– Going concern capital of UBS AG consolidated was CHF 4.1 billion lower than going concern capital of UBS Group AG consolidated as of 30 June 2018, reflecting lower additional tier 1 (AT1) capital of CHF 4.0 billion and lower common equity tier 1 (CET1) capital of CHF 0.1 billion.
– CET1 capital of UBS AG consolidated was CHF 0.1 billion lower than that of UBS Group AG consolidated, primarily due to the aforementioned lower equity of UBS AG consolidated, as well as a higher dividend accrual at the UBS AG level. These effects were largely offset by deductions for compensation-related regulatory capital components that are only reflected at the level of UBS Group AG consolidated.
– Going concern loss-absorbing AT1 capital of UBS AG consolidated was CHF 4.0 billion lower than that of UBS Group AG consolidated and relates to AT1 capital notes issued by UBS Group Funding (Switzerland) AG, a direct subsidiary of UBS Group AG, as well as Deferred Contingent Capital Plan awards.

Comparison UBS Group AG consolidated versus UBS AG consolidated

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

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

Significant regulated subsidiary and sub-group information

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

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

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

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

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

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

Standalone regulatory information for UBS AG, UBS Switzerland AG and UBS Limited as well as consolidated regulatory information for UBS Americas Holding LLC is provided in the 30 June 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which will be available as of 7 August 2018 under "Pillar 3 disclosures" at *www.ubs.com/investors*.

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

UBS AG (consolidated) key figures

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

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

Abbreviations frequently used in our financial reports

A

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

B

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

C

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

D

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

E

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

F

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

G

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

Abbreviations frequently used in our financial reports (continued)

H

HQLA high-quality liquid assets

I

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

K

KPI key performance indicator
KRT Key Risk Taker

L

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

M

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

N

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

O

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

P

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

Q

QRRE qualifying revolving retail exposures

R

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

S

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

T

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

U

USD US dollar

V

VaR value-at-risk

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

Information sources

Reporting publications

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

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

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

Other information

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

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

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

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

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

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

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

UBS Group AG
P.O. Box
CH-8098 Zurich

ubs.com