UBS AG
Form 6-K
October 31, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

**PURSUANT TO RULE 13a-16 OR 15d-16 UNDER**

**THE SECURITIES EXCHANGE ACT OF 1934**

**Date: October 31, 2018**

**UBS AG**

**Commission File Number: 1-15060**

(Registrant's Name)

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

(Address of principal executive offices)

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

Form 20-F x Form 40-F o

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

## Corporate calendar UBS AG

Publication of the Annual Report 2018: Friday, 1 March 2019

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

## 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 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 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

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Third quarter 2018 report

UBS AG consolidated key figures

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

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

1 Refer to the "Measurement of performance" section of our Annual Report 2017 for the definitions of our key performance indicators. 2 Based on the Swiss systemically relevant bank framework as of 1 January 2020. Refer to the "Capital management" section of the UBS Group third quarter 2018 report for more information. 3 Calculated as operating income before credit loss (annualized as applicable) / average risk-weighted assets and average leverage ratio denominator, respectively. 4 Includes invested assets for Personal & Corporate Banking. 5 As of 30 September 2018, the breakdown of personnel by business division and Corporate Center unit was: Global Wealth Management: 23,495; Personal & Corporate Banking: 5,114; Asset Management: 2,292; Investment Bank: 4,721; Corporate Center – Services: 11,265; Corporate Center – Group ALM: 161; Corporate Center – Non-core and Legacy Portfolio: 45.

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Introduction

## Structure of this report

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

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

→ **Refer to the UBS Group third quarter 2018 report under "Quarterly reporting" at *www.ubs.com/investors* for more information**

## Comparison UBS Group AG consolidated vs UBS AG consolidated

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

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

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

– UBS Group AG consolidated equity was CHF 1.0 billion higher compared to the equity of UBS AG consolidated as of 30 September 2018, mainly driven by higher dividends paid by UBS AG to UBS Group AG compared with the dividend distributions of UBS Group AG, as well as higher retained earnings in the UBS Group AG consolidated financial statements, largely related to the aforementioned markup charged by shared services subsidiaries of UBS Group AG to other legal entities in the UBS AG scope of consolidation. UBS Group AG is also the grantor of the majority of the compensation plans of the Group and recognizes share premium for equity-settled awards granted, largely offset by the treasury shares held to hedge the related share delivery obligation and those acquired as part of our share repurchase program. These effects were partly offset by additional share premium recognized at the UBS AG consolidated level related to the establishment of UBS Group AG and UBS Business Solutions AG, a wholly owned subsidiary of UBS Group AG.

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

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

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

→ **Refer to "Holding company and significant regulated subsidiaries and sub-groups" at *www.ubs.com/investors* for an illustration of the consolidation scope differences between UBS AG and UBS Group AG**

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

Introduction

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

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

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

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

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

Risk and capital management

Management report

Risk management and control

## UBS AG consolidated risk profile

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

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

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

Capital management

## Going and gone concern requirements and information

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

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

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

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

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

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

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *debt* | | | | | | | | |
| **Total gone concern loss-absorbing capacity** | **12.54** | **31,531** | **3.51** | **31,531** | **14.87** | **37,384** | **4.16** | **37,384** |
| **Total loss-absorbing capacity** | **31.35** | **78,816** | **8.77** | **78,816** | **31.35** | **78,816** | **8.77** | **78,816** |
| **Risk-weighted assets / leverage ratio denominator** | | | | | | | | |
| Risk-weighted assets | | **251,428** | | | | **251,428** | | |
| Leverage ratio denominator | | | | **898,894** | | | | **898,894** |

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

**Swiss SRB going and gone concern information**

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

| | | | | | | |
|---|---|---|---|---|---|---|
| **Risk-weighted assets / leverage ratio denominator** | | | | | | |
| Risk-weighted assets | **251,428[2]** | 251,648[2] | 237,456 | **251,428[2]** | 251,648[2] | 236,606 |
| Leverage ratio denominator | **898,894** | 903,467 | 888,687 | **898,894** | 903,467 | 887,189 |
| | | | | | | |
| **Capital and loss-absorbing capacity ratios (%)** | | | | | | |
| Going concern capital ratio | **18.8** | 18.7 | 19.5 | **16.5** | 16.2 | 15.6 |
| *of which: common equity tier 1 capital ratio* | ***13.7*** | *13.4* | *15.2* | ***13.7*** | *13.4* | *14.0* |
| Gone concern loss-absorbing capacity ratio | **12.5** | 12.9 | 12.4 | **14.9** | 15.5 | 15.8 |
| Total loss-absorbing capacity ratio | **31.3** | 31.7 | 31.9 | **31.3** | 31.7 | 31.4 |
| | | | | | | |
| **Leverage ratios (%)** | | | | | | |
| Going concern leverage ratio | **5.3** | 5.2 | 5.2 | **4.6** | 4.5 | 4.2 |
| *of which: common equity tier 1 leverage ratio* | ***3.83*** | *3.73* | *4.06* | ***3.83*** | *3.73* | *3.75* |
| Gone concern leverage ratio | **3.5** | 3.6 | 3.3 | **4.2** | 4.3 | 4.2 |
| Total loss-absorbing capacity leverage ratio | **8.8** | 8.8 | 8.5 | **8.8** | 8.8 | 8.4 |

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

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

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

| As of 30.9.18 *CHF million, except where indicated* | Swiss SRB, including transitional arrangements UBS Group AG (consolidated) | UBS AG (consolidated) | Differences | Swiss SRB as of 1.1.20 UBS Group AG (consolidated) | UBS AG (consolidated) | Dif |
|---|---|---|---|---|---|---|
| **Going concern capital** | | | | | | |
| **Common equity tier 1 capital[1]** | 34,167 | 34,392 | (225) | 34,167 | 34,392 | |
| High-trigger loss-absorbing additional tier 1 capital | 8,633 | 7,040 | 1,594 | 8,633 | 7,040 | |
| Low-trigger loss-absorbing additional tier 1 capital | 2,314 | | 2,314 | 2,314 | | |
| **Total loss-absorbing additional tier 1 capital** | 10,948 | 7,040 | 3,908 | 10,948 | 7,040 | |
| **Total tier 1 capital** | 45,115 | 41,432 | 3,683 | 45,115 | 41,432 | |
| High-trigger loss-absorbing tier 2 capital | 427 | | 427 | | | |
| Low-trigger loss-absorbing tier 2 capital[2] | 5,853 | 5,853 | 0 | | | |
| **Total tier 2 capital** | 6,281 | 5,853 | 427 | | | |
| **Total going concern capital** | 51,395 | 47,285 | 4,110 | 45,115 | 41,432 | |
| **Gone concern loss-absorbing capacity[3]** | | | | | | |
| Low-trigger loss-absorbing additional tier 1 capital | | 2,313[4] | (2,313) | | 2,313[4] | |
| **Total tier 1 capital** | | 2,313 | (2,313) | | 2,313 | |

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

| | | | | | |
|---|---|---|---|---|---|
| *of which: common equity tier 1 leverage ratio* | | | | | |
| Gone concern leverage ratio | 3.3 | 3.5 | (0.3) | 3.9 | 4.2 |
| Total loss-absorbing capacity leverage ratio | 9.0 | 8.8 | 0.2 | 8.9 | 8.8 |

1 IFRS 9 expected credit loss adoption effects for exposures treated under the standardized approach deducted from our CET1 capital. The associated classification and measurement changes are conside based on the FINMA consultation paper, which will be superseded by final FINMA guidance, issued 16 2018. We expect to implement any changes related to the final guidance by the effective date 1 January 2019. Refer to "Introduction and basis for preparation" of our 30 September 2018 Pillar 3 re Group and significant regulated subsidiaries and sub-groups, available under "Pillar 3 disclosures" at www.ubs.com/investors for more information. 2 Under the transitional rules of the Swiss SRB frame outstanding low-trigger loss-absorbing tier 2 capital instruments are subject to amortization starting f 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, haircut of 50% applied in the last year of eligibility. 4 The relevant capital instruments were issued new Swiss SRB framework had been implemented and therefore qualify as gone concern loss-absorbi capacity.

Capital management

**Reconciliation of IFRS equity to Swiss SRB common equity tier 1 capital (UBS Group AG vs UBS AG consolidated)**
As of 30.9.18

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

1 Includes accruals for dividends to shareholders for the current year and other items.

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

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

CET1 capital of UBS AG consolidated was CHF 0.2 billion higher than that of UBS Group AG consolidated, primarily due to the deductions for compensation-related regulatory capital components that are only reflected at the level of UBS Group AG consolidated. This effect was largely offset by lower equity of UBS AG consolidated, as well as a higher dividend accrual at the UBS AG level.

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

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

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

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

→ **Refer to the "Capital management" section of the UBS Group third quarter 2018 report under "Quarterly reporting" at *www.ubs.com/investors* for information on the developments of loss-absorbing capacity, risk-weighted assets and leverage ratio denominator for UBS Group AG consolidated**

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

# Consolidated financial statements

Unaudited

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

UBS AG interim consolidated
financial statements (unaudited)

**Income statement**

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

UBS AG interim consolidated financial statements (unaudited)

**Statement of comprehensive income**

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

| | | | | | |
|---|---|---|---|---|---|
| **Other comprehensive income that will not be reclassified to the income statement** | | | | | |
| **Defined benefit plans** | | | | | |
| Gains / (losses) on defined benefit plans, before tax | **(43)** | 250 | 135 | 173 | 299 |
| Income tax relating to defined benefit plans | **2** | 2 | (7) | 25 | (4) |
| Subtotal defined benefit plans, net of tax | **(41)** | 252 | 128 | 197 | 295 |
| **Own credit on financial liabilities designated at fair value** | | | | | |
| Gains / (losses) from own credit on financial liabilities designated at fair value, before tax | **(284)** | 248 | (36) | 135 | (288) |
| Income tax relating to own credit on financial liabilities designated at fair value | **2** | 0 | 0 | 0 | (1) |
| Subtotal own credit on financial liabilities designated at fair value, net of tax | **(283)** | 248 | (36) | 135 | (290) |
| **Total other comprehensive income that will not be reclassified to the income statement, net of tax** | **(324)** | 499 | 92 | 332 | 5 |
| | | | | | |
| **Total other comprehensive income** | **(963)** | 1,068 | 600 | (627) | (1,128) |
| **Total comprehensive income attributable to shareholders** | **174** | 2,251 | 1,504 | 3,063 | 2,129 |

**Statement of comprehensive income (continued)**

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

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

UBS AG interim consolidated financial statements (unaudited)

**Balance sheet**

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

**Balance sheet (continued)**

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

UBS AG interim consolidated financial statements (unaudited)

**Statement of changes in equity**

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

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

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

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| *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 | Preferred noteholders | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| *(5,564)* | *98* | *972* | 53,662 | **642** | **40** | **54,343** |
| | | | 0 | | | 0 |
| | | | 6 | | | 6 |
| | | | 12 | | | 12 |
| | | | (2,250) | (46) | (4) | (2,300) |
| | | | 0 | 1 | | 1 |
| | | | (313) | | 19 | (294) |
| *(735)* | *(47)* | *(351)* | 2,129 | 90 | 2 | 2,221 |
| | | | *3,257* | *46* | *3* | *3,307* |
| *(735)* | *(47)* | *(351)* | *(1,133)* | | | *(1,133)* |
| | | | *295* | | | *295* |
| | | | *(290)* | | | *(290)* |
| | | | *0* | *44* | *(1)* | *43* |
| *(6,299)* | *51* | *621* | 53,246 | **687** | **56** | **53,989** |
| | | | | | | |
| ***(6,099)*** | ***12*** | ***351*** | **50,718** | | **57** | **50,775** |
| | ***(72)*** | | **(577)** | | | **(577)** |
| | | | **(24)** | | | **(24)** |
| ***(6,099)*** | ***(60)*** | ***351*** | **50,117** | | **57** | **50,174** |
| | | | **0** | | | **0** |
| | | | **22** | | | **22** |
| | | | **6** | | | **6** |
| | | | **(3,065)** | | **(7)** | **(3,072)** |
| | | | **(8)** | | **(16)** | **(24)** |
| ***(25)*** | ***(86)*** | ***(849)*** | **3,063** | | **4** | **3,066** |
| | | | ***3,690*** | | ***6*** | ***3,696*** |
| ***(25)*** | ***(86)*** | ***(849)*** | ***(960)*** | | | ***(960)*** |
| | | | ***197*** | | | ***197*** |
| | | | ***135*** | | | ***135*** |
| | | | ***0*** | | ***(2)*** | ***(2)*** |
| ***(6,124)*** | ***(144)*** | ***(498)*** | **50,136** | | **38** | **50,174** |

UBS AG interim consolidated financial statements (unaudited)

**Statement of cash flows[1]**

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

Table continues on the next page.

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

Table continued from previous page.

| | Year-to-date | |
|---|---|---|
| *CHF million* | **30.9.18** | 30.9.17 |
| **Cash flow from / (used in) financing activities** | | |
| Net short-term debt issued / (repaid) | **(7,302)** | 21,855 |
| Distributions paid on UBS shares | **(3,065)** | (2,250) |
| Issuance of long-term debt, including debt issued designated at fair value[3] | **48,932** | 40,066 |
| Repayment of long-term debt, including debt issued designated at fair value[3] | **(35,163)** | (32,346) |
| Dividends paid and repayments of preferred notes | **0** | (45) |
| Net changes in non-controlling interests | **14** | (5) |
| **Net cash flow from / (used in) financing activities** | **3,416** | 27,275 |
| **Total cash flow** | | |
| **Cash and cash equivalents at the beginning of the period** | **102,154** | 121,107 |
| Net cash flow from / (used in) operating, investing and financing activities | **7,476** | (9,370) |
| Effects of exchange rate differences on cash and cash equivalents | **(933)** | (324) |
| **Cash and cash equivalents at the end of the period[4]** | **108,697** | 111,413 |
| *of which: cash and balances at central banks* | ***92,518*** | *94,563* |
| *of which: loans and advances to banks* | ***13,790*** | *13,753* |
| *of which: money market paper[5]* | ***2,389*** | *3,097* |
| **Additional information** | | |
| Net cash flow from / (used in) operating activities includes: | | |
| Interest received in cash | **10,269** | 9,132 |
| Interest paid in cash | **6,810** | 5,127 |
| Dividends on equity investments, investment funds and associates received in cash[6] | **1,884** | 1,465 |

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 18 for more information. 2 Includes dividends received from associates. 3 Includes funding from UBS Group AG and its subsidiaries. 4 CHF 3,054 million and CHF 2,559 million of cash and cash equivalents (mainly reflected in Loans and advances to banks) were restricted as of 30 September 2018 and 30 September 2017, respectively. Refer to "Note 23 Restricted and transferred financial assets" in the "Consolidated financial statements" section in the Annual Report 2017 for more information. 5 Money market paper is included in the balance sheet under Financial assets at fair value held for trading, Financial assets measured at fair value

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

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

## Note 1 Basis of accounting

### 1.1 Basis of preparation

The consolidated financial statements (the Financial Statements) of UBS AG and its subsidiaries (together "UBS AG") are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and are presented in Swiss francs (CHF), which is also the functional currency of UBS AG's Head Office and its Swiss-based operations.[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 AG consolidated annual Financial Statements for the period ended 31 December 2017, except for the changes described in this note, in Note 18 of this report and in "Note 1 Basis of accounting" in the "Consolidated financial statements" section of the first and second quarter 2018 reports. These interim Financial Statements are unaudited and should be read in conjunction with UBS AG's audited consolidated Financial Statements included in the Annual Report 2017. In the opinion of management, all necessary adjustments were made for a fair presentation of UBS AG's financial position, results of operations and cash flows.

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

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

#### IFRS 9, *Financial Instruments*

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

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

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

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

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

The updated accounting policies for classification and measurement of financial instruments and impairment of financial assets as applied from 1 January 2018 are presented in Note 18.1 of this report, alongside further detail on areas of critical accounting estimates and judgments. The detailed effects of the adoption of IFRS 9 on 1 January 2018 are presented in Note 18.2.

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

IFRS 15, *Revenue from Contracts with Customers*

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

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

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

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

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

## 1.3 New accounting standards to be adopted in 2019

### IFRS 16, *Leases*

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

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

## Note 2 Segment reporting

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

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

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

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

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| recovery | | | | | | | |
| Total operating income | 11,906 | 2,864 | 1,422 | 5,925 | 153 | (50) | 16 |
| Personnel expenses | 5,635 | 646 | 542 | 2,306 | 2,064 | 25 | 34 |
| General and administrative expenses | 917 | 205 | 162 | 447 | 4,267 | 14 | (19) |
| Services (to) / from CC and other BDs | 2,641 | 817 | 374 | 2,008 | (5,997) | (10) | 167 |
| *of which: services from CC − Services* | *2,567* | *885* | *402* | *1,940* | *(6,038)* | *100* | *144* |
| Depreciation and impairment of property, equipment and software | 3 | 9 | 1 | 7 | 674 | 0 | 0 |
| Amortization and impairment of intangible assets | 34 | 0 | 3 | 9 | 6 | 0 | 0 |
| Total operating expenses | 9,230 | 1,677 | 1,083 | 4,777 | 1,015 | 29 | 183 |
| **Operating profit / (loss) before tax** | **2,676** | **1,186** | **340** | **1,148** | **(861)** | **(79)** | **(167)** |
| Tax expense / (benefit) | | | | | | | |
| **Net profit / (loss)** | | | | | | | |
| | | | | | | | |
| **As of 31 December 2017** | | | | | | | |
| **Total assets** | **190,074** | **135,587** | **14,270** | **263,046** | **19,447** | **247,739** | **46,200** |

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

**Note 3 Net fee and commission income[1]**

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

1 Upon adoption of IFRS 15, certain brokerage fees paid in an agency capacity have been reclassified from Fee and commission expense to Fee and commission income on a prospective basis from 1 January 2018, primarily relating to third-party execution costs for exchange-traded derivative transactions and fees payable to third-party research providers on behalf of clients. In addition to the IFRS 15 changes, certain revenues, primarily distribution fees and fund management fees, have been reclassified between reporting lines to better reflect the nature of the revenues, with prior period information restated accordingly. This resulted in the following impacts: For the quarter ended 30 September 2017, CHF 68 million was reclassified from Underwriting fees to Brokerage fees and CHF 265 million was reclassified from Portfolio management and related services to Investment fund fees. For the first nine months of 2017, CHF 233 million was reclassified from total Underwriting fees to Brokerage fees and CHF 764 million was reclassified from Portfolio management and related services to Investment fund fees. Also, certain expenses that are incremental and incidental to revenues have been reclassified prospectively from General and administrative expenses to Fee and commission expense to improve the alignment of transaction-based costs with the associated revenue stream, primarily impacting clearing costs, client loyalty costs, fund and custody expenses. As the impact of this reclassification was not material, prior period information was not restated. 2 Reflects third-party fee and commission income for the third quarter of 2018 of CHF 2,783 million for Global Wealth Management (second quarter of 2018: CHF 2,832 million), CHF 306 million for Personal & Corporate Banking (second quarter of 2018: CHF 301 million), CHF 792 million for Asset Management (second quarter of 2018: CHF 801 million), CHF 891 million for the Investment Bank (second quarter of 2018: CHF 863 million) and CHF 8 million for Corporate Center (second quarter of 2018: CHF 3 million).

**Note 4 Other income**

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

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

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

## Note 5 Personnel expenses

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

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 AG. As a consequence, a pre-tax gain of CHF 123 million was recognized in the income statement in the first quarter of 2018, with no overall effect on total equity. Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of the first quarter 2018 report for more information. 3 The decrease compared with the first nine months of 2017 was mainly due to the transfer of shared services functions in Switzerland and the UK from UBS AG to UBS Business Solutions AG in the second quarter and fourth quarter of 2017, respectively. Refer to the Annual Report 2017 for more information.

## Note 6 General and administrative expenses

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

| | | | | | |
|---|---|---|---|---|---|
| *of which: shared services costs charged by UBS Group AG or its subsidiaries*[1] | | | | | |
| *of which: UK bank levy*[3] | ***0*** | *(45)* | *0* | *(45)* | *(71)* |
| Marketing and public relations | **58** | 61 | 66 | 189 | 225 |
| Travel and entertainment | **87** | 96 | 87 | 262 | 270 |
| Professional fees | **197** | 208 | 275 | 600 | 781 |
| Outsourcing of IT and other services | **175** | 181 | 320 | 532 | 908 |
| Litigation, regulatory and similar matters[4] | **3** | 131 | 197 | 123 | 239 |
| Other | **23** | 7 | 32 | 59 | 93 |
| **Total general and administrative expenses** | **2,233** | 2,308 | 2,282 | 6,777 | 5,993 |

1 Relates to subsidiaries not in the UBS AG scope of consolidation. 2 The increase compared with the first nine months of 2017 was mainly due to the transfer of shared services functions in Switzerland and the UK from UBS AG to UBS Business Solutions AG in the second quarter and fourth quarter of 2017, respectively. Refer to the Annual Report 2017 for more information. 3 The credits presented for the periods shown are related to prior years.
4 Reflects the net increase / (release) in provisions for litigation, regulatory and similar matters recognized in the income statement. Refer to Note 14 for more information. Also includes recoveries from third parties (third quarter of 2018: CHF 0 million; second quarter of 2018: CHF 10 million; third quarter of 2017: CHF 50 million).

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**Note 7 Income taxes**

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

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

Deferred tax expenses were CHF 182 million in the third quarter of 2018 compared with CHF 39 million in the third quarter of 2017 and mainly related to the amortization of deferred tax assets previously recognized in relation to tax losses carried forward and deductible temporary differences to reflect their offset against profits for the quarter.

## Note 8 Expected credit loss measurement

### a) Expected credit losses in the period

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

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

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

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

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

**Economic scenarios and weights applied**

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

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

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

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

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

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

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

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

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

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

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

| *CHF million* | | | 30.9.18 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 92,632 | 92,632 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and advances to banks | 15,284 | 15,277 | 5 | 2 | (5) | (2) | 0 | (3) |
| Receivables from securities financing transactions | 81,951 | 81,951 | 0 | 0 | (2) | (2) | 0 | 0 |
| Cash collateral receivables on derivative instruments | 21,414 | 21,414 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and advances to customers | 320,236 | 297,696 | 20,939 | 1,601 | (832) | (50) | (170) | (612) |
| *of which: Private clients with mortgage* | *123,568* | *112,299* | *10,505* | *765* | *(117)* | *(10)* | *(74)* | *(33)* |
| *of which: Real estate financing* | *35,964* | *27,332* | *8,592* | *39* | *(62)* | *(4)* | *(48)* | *(10)* |
| *of which: Large corporate clients* | *10,710* | *10,095* | *543* | *72* | *(84)* | *(5)* | *(10)* | *(68)* |
| *of which: SME clients* | *9,710* | *8,351* | *812* | *546* | *(291)* | *(6)* | *(25)* | *(261)* |
| *of which: Lombard* | *114,093* | *114,070* | *0* | *23* | *(97)* | *(4)* | *0* | *(93)* |
| *of which: Credit cards* | *1,427* | *1,126* | *288* | *13* | *(36)* | *(6)* | *(12)* | *(18)* |
| *of which: Commodity trade finance* | *3,534* | *3,505* | *12* | *17* | *(84)* | *(5)* | *0* | *(80)* |
| Other financial assets measured at amortized cost | 20,682 | 19,757 | 274 | 651 | (168) | (37) | (5) | (125) |
| *of which: Loans to financial advisors* | *3,294* | *2,889* | *103* | *302* | *(121)* | *(30)* | *(3)* | *(89)* |
| **Total financial assets measured at amortized cost[1]** | **552,199** | **528,727** | **21,217** | **2,254** | **(1,007)** | **(92)** | **(176)** | **(740)** |
| | **6,618** | **6,618** | **0** | **0** | **0** | **0** | **0** | **0** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Financial assets measured at fair value through other comprehensive income** | | | | | | | | |
| **Total on-balance sheet financial assets in scope of ECL requirements** | **558,817** | **535,345** | **21,217** | **2,254** | **(1,007)** | **(92)** | **(176)** | **(740)** |

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

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

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

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

| *CHF million* | 30.6.18 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | | | | ECL allowance | | | |
| **Financial instruments measured at amortized cost** | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 |
| Cash and balances at central banks | 102,262 | 102,262 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and advances to banks | 15,518 | 15,510 | 8 | 0 | (4) | (2) | 0 | (2) |
| Receivables from securities financing transactions | 76,450 | 76,450 | 0 | 0 | (2) | (2) | 0 | 0 |
| Cash collateral receivables on derivative instruments | 24,937 | 24,937 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and advances to customers | 320,569 | 295,332 | 23,612 | 1,625 | (847) | (53) | (174) | (620) |
| *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 | 21,072 | 20,264 | 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]** | **560,808** | **534,755** | **23,912** | **2,141** | **(1,022)** | **(97)** | **(179)** | **(746)** |
| | **6,941** | **6,941** | **0** | **0** | **0** | **0** | **0** | **0** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Financial assets measured at fair value through other comprehensive income** | | | | | | | | |
| **Total on-balance sheet financial assets in scope of ECL requirements** | **567,749** | **541,696** | **23,912** | **2,141** | **(1,022)** | **(97)** | **(179)** | **(746)** |

| | Total exposure | | | | ECL provision | | | |
|---|---|---|---|---|---|---|---|---|
| **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.

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

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

| *CHF million* | | | 1.1.18 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Carrying amount | | | | ECL allowance | | | |
| **Financial instruments measured at amortized cost** | Total | Stage 1 | Stage 2 | Stage 3[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 | 13,673 | 13,654 | 18 | 0 | (5) | (2) | 0 | (3) |
| Receivables from securities financing transactions | 84,674 | 84,674 | 0 | 0 | (2) | (2) | 0 | 0 |
| Cash collateral receivables on derivative instruments | 23,434 | 23,434 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and advances to customers | 312,602 | 283,256 | 27,855 | 1,491 | (867) | (61) | (163) | (644) |
| *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* | *110,601* | *110,584* | *0* | *17* | *(84)* | *(5)* | *0* | *(79)* |
| Other financial assets measured at amortized cost | 18,375 | 17,877 | 32 | 465 | (136) | (29) | (1) | (106) |
| *of which: Loans to financial advisors* | *3,086* | *2,874* | *32* | *179* | *(115)* | *(28)* | *(1)* | *(87)* |
| **Total financial assets measured at amortized cost[1]** | **540,533** | **510,671** | **27,906** | **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 exposure | | | | ECL provision | | | |
|---|---|---|---|---|---|---|---|---|
| **Total on-balance sheet financial assets in scope of ECL requirements** | **547,288** | **517,426** | **27,906** | **1,956** | **(1,011)** | **(95)** | **(164)** | **(752)** |
| **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 no allowance has been recognized (e.g., because they are expected to be fully recoverable through the collateral held). Refer to Note 18 for more information on the adoption of IFRS 9.

**Note 9 Fair value measurement**

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

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

## Adoption of IFRS 9

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

– brokerage receivables and payables held in the Investment Bank and Global Wealth Management;

– auction rate securities held in Corporate Center; and

– certain loans held in the Investment Bank.

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

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

→ **Refer to Note 18 for more information on the adoption of IFRS 9**

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

## a) Fair value hierarchy

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

**Determination of fair values from quotedmarket prices or valuation techniques[1]**

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

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

**Financial assets measured at fair value through other comprehensive income on a recurring basis**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Financial assets measured at fair value through other | **2,400** | **4,218** | **0** | **6,618** | 2,608 | 4,333 | 0 | 6,941 | 3,0 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| comprehensive income | | | | | | | | | |
| *of which:* | | | | | | | | | |
| *Government bills / bonds* | ***2,359*** | ***82*** | ***0*** | ***2,441*** | *2,563* | *111* | *0* | *2,675* | *2,7* |
| *Corporate and municipal bonds* | ***41*** | ***406*** | ***0*** | ***446*** | *44* | *390* | *0* | *434* | *1* |
| *Asset-backed securities* | ***0*** | ***3,731*** | ***0*** | ***3,731*** | *0* | *3,832* | *0* | *3,832* | |
| *Other[5]* | ***0*** | ***0*** | ***0*** | ***0*** | *0* | *0* | *0* | *0* | *1* |
| **Non-financial assets measured at fair value on a recurring basis** | | | | | | | | | |
| Other non-financial assets | | | | | | | | | |
| Precious metals and other physical commodities | **4,035** | **0** | **0** | **4,035** | 3,975 | 0 | 0 | 3,975 | 4,5 |
| **Non-financial assets measured at fair value on a non-recurring basis** | | | | | | | | | |
| Other non-financial assets[6] | **0** | **81** | **3** | **84** | 0 | 57 | 9 | 65 | |
| **Total assets measured at fair value** | **149,687** | **194,625** | **8,764** | **353,075** | 146,523 | 200,090 | 9,522 | 356,135 | 140,0 |

## Note 9 Fair value measurement (continued)

**Determination of fair values from quoted market prices or valuation techniques (continue**

| | **30.9.18** | | | | 30.6.18 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *CHF million* | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total | Leve |
| **Financial liabilities measured at fair value on a recurring basis** | | | | | | | | | |
| Financial liabilities at fair value held for trading | **26,331** | **5,579** | **120** | **32,030** | 26,211 | 5,117 | 88 | 31,416 | 26,03 |
| *of which:* | | | | | | | | | |
| *Government bills / bonds* | ***3,279*** | ***308*** | ***0*** | ***3,588*** | *4,386* | *299* | *0* | *4,685* | *5,15* |
| *Corporate and municipal bonds* | ***7*** | ***4,680*** | ***62*** | ***4,749*** | *138* | *4,113* | *34* | *4,285* | *5* |
| *Investment fund units* | ***294*** | ***138*** | ***0*** | ***432*** | *785* | *214* | *2* | *1,002* | *54* |
| *Equity instruments* | ***22,750*** | ***452*** | ***57*** | ***23,259*** | *20,901* | *488* | *52* | *21,440* | *20,29* |
| Derivative financial instruments | **758** | **110,384** | **2,411** | **113,553** | 875 | 115,955 | 2,394 | 119,224 | 39 |
| *of which:* | | | | | | | | | |
| *Interest rate contracts* | ***5*** | ***30,837*** | ***320*** | ***31,163*** | *6* | *33,738* | *285* | *34,030* | |
| *Credit derivative contracts* | ***0*** | ***2,514*** | ***576*** | ***3,090*** | *0* | *2,620* | *613* | *3,233* | |
| *Foreign exchange contracts* | ***445*** | ***48,084*** | ***97*** | ***48,627*** | *585* | *52,922* | *115* | *53,621* | *2.* |
| *Equity / index contracts* | ***5*** | ***27,209*** | ***1,415*** | ***28,629*** | *2* | *25,122* | *1,369* | *26,493* | *4* |
| *Commodity contracts* | ***0*** | ***1,671*** | ***1*** | ***1,672*** | *0* | *1,365* | *1* | *1,366* | |
| **Financial liabilities designated at fair value on a recurring basis** | | | | | | | | | |
| Brokerage payables designated at fair value[3] | **0** | **38,268** | **0** | **38,268** | 0 | 37,904 | 0 | 37,904 | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Debt issued designated at fair value | **0** | **51,527** | **10,105** | **61,631** | 0 | 46,683 | 10,166 | 56,849 | |
| Other financial liabilities designated at fair value | **0** | **33,931** | **673** | **34,605** | 2 | 36,252 | 1,089 | 37,342 | |
| *of which:* | | | | | | | | | |
| *Amounts due under unit-linked investment contracts* | ***0*** | ***23,499*** | ***0*** | ***23,499*** | *0* | *24,913* | *0* | *24,913* | |
| *Structured securities financing transactions*[4] | ***0*** | ***8,335*** | ***71*** | ***8,406*** | *0* | *6,533* | *0* | *6,533* | |
| *Over-the-counter debt instruments* | ***0*** | ***2,095*** | ***599*** | ***2,694*** | *2* | *4,801* | *1,085* | *5,888* | |
| **Non-financial liabilities measured at fair value on a non-recurring basis** | | | | | | | | | |
| Other non-financial liabilities | **0** | **0** | **0** | **0** | 0 | 0 | 0 | 0 | |
| **Total liabilities measured at fair value** | **27,089** | **239,689** | **13,309** | **280,087** | 27,087 | 241,911 | 13,737 | 282,736 | 26,4 |

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

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

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

– Level 2 – valuation techniques for which all significant inputs are, or are based on, observable market data; or

– Level 3 – valuation techniques for which significant inputs are not based on observable market data.

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

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

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

### Auction rate securities

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

### Brokerage receivables and payables

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

## b) Valuation adjustments

### Deferred day-1 profit or loss reserves

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

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

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

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

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

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

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

Assets totaling approximately CHF 0.8 billion, which were mainly comprised of financial assets at fair value held for trading, primarily equity instruments and investment fund units, were transferred from Level 2 to Level 1 during the first nine months of 2018, generally due to increased levels of trading activity observed within the market. Liabilities transferred from Level 2 to Level 1 during the first nine months of 2018 were not material. Assets and liabilities transferred from Level 1 to Level 2 during the first nine months of 2018 were also not material.

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

## Note 9 Fair value measurement (continued)

### d) Level 3 instruments: valuation techniques and inputs

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

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

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

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

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

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

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

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

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## Note 9 Fair value measurement (continued)

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

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

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

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

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

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

| | | | | | | |
|---|---|---|---|---|---|---|
| Asset-backed securities | | | | | | |
| Equity instruments | **185** | **(123)** | 182 | (115) | 79 | (53) |
| Interest rate derivative contracts, net | **12** | **(49)** | 12 | (37) | 13 | (26) |
| Credit derivative contracts, net | **31** | **(35)** | 40 | (35) | 64 | (99) |
| Foreign exchange derivative contracts, net | **8** | **(5)** | 6 | (3) | 12 | (6) |
| Equity / index derivative contracts, net | **184** | **(198)** | 212 | (228) | 190 | (193) |
| Other | **19** | **(19)** | 21 | (21) | 13 | (13) |
| **Total** | **666** | **(572)** | 704 | (586) | 502 | (450) |

1 Comparative period information as of 31 December 2017 is not disclosed for financial assets that were measured at amortized cost prior to the adoption of IFRS 9 on 1 January 2018. Refer to Note 18 for more information.

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

#### Significant changes in Level 3 instruments

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

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

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

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

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

**Movements of Level 3 instruments**

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

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **income** | | | | | | | | |
| **Derivative financial instruments – assets** | **2.5** | **(0.2)** | ***(0.3)*** | **0.0** | **0.0** | **0.7** | **(1.0)** | **0.2** |
| *of which:* | | | | | | | | |
| *Credit derivative contracts* | *1.3* | *(0.2)* | *(0.2)* | *0.0* | *0.0* | *0.0* | *(0.4)* | *0.0* |
| *Equity / index contracts* | *0.7* | *(0.1)* | *(0.1)* | *0.0* | *0.0* | *0.6* | *(0.4)* | *0.1* |
| *Other* | *0.5* | *0.0* | *(0.1)* | *0.0* | *0.0* | *0.0* | *(0.2)* | *0.0* |
| **Derivative financial instruments – liabilities** | **4.0** | **0.1** | ***(0.1)*** | **0.0** | **0.0** | **0.4** | **(0.9)** | **0.2** |
| *of which:* | | | | | | | | |
| *Credit derivative contracts* | *1.5* | *0.0* | *(0.1)* | *0.0* | *0.0* | *0.1* | *(0.5)* | *0.0* |
| *Equity / index contracts* | *1.9* | *0.1* | *0.1* | *0.0* | *0.0* | *0.3* | *(0.3)* | *0.1* |
| *Other* | *0.6* | *0.0* | *(0.1)* | *0.0* | *0.0* | *0.1* | *(0.1)* | *0.1* |
| **Debt issued designated at fair value** | **9.7** | **1.0** | ***0.8*** | **0.0** | **0.0** | **3.8** | **(3.3)** | **0.6** |
| **Other financial liabilities designated at fair value** | **1.3** | **0.1** | ***0.0*** | **0.0** | **0.0** | **1.3** | **(0.7)** | **0.0** |

1 Net gains / (losses) included in comprehensive income are comprised of Net interest income, Other
changes on financial instruments and Other income. 2 Total Level 3 assets as of 30 September 201
2018: CHF 9.5 billion; 31 December 2017: CHF 5.5 billion). Total Level 3 liabilities as of 30 September
(30 June 2018: CHF 13.7 billion; 31 December 2017: CHF 15.7 billion). 3 Comparative period inform
that were measured at amortized cost prior to the adoption of IFRS 9. Refer to Note 18 for more infor

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

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

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

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

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

Assets transferred into and out of Level 3 totaled CHF 1.5 billion and CHF 0.5 billion, respectively. Transfers into Level 3 were primarily comprised of corporate and municipal bonds reflecting decreased observability of the respective bond price equivalent inputs. Transfers out of Level 3 were primarily comprised of equity / index contracts due to increased observability of the respective equity volatility inputs.

Liabilities transferred into and out of Level 3 totaled CHF 1.7 billion and CHF 4.6 billion, respectively. Transfers into Level 3 were primarily comprised of structured medium-term notes and equity-linked issued debt instruments due to decreased observability of the embedded derivative inputs. Transfers out of Level 3 were primarily comprised of interest rate-linked and equity-linked issued debt instruments resulting from changes in the observability of the respective OCA curve and equity volatility inputs used to determine the fair value of these instruments.

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

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

**Financial instruments not measured at fair value**

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

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

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

**Note 10 Derivative instruments**

## a) Derivative instruments

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

| *As of 30.6.18, CHF billion* | | | | | |
|---|---|---|---|---|---|
| **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 31.12.17, 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,** | 118.2 | 4,063 | 116.1 | 3,878 | 10,555 |

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

**Note 10 Derivative instruments (continued)**

**b) Cash collateral on derivative instruments**

| | **Receivables** | **Payables** | Receivables | Payables | Receivables | Payables |
|---|---|---|---|---|---|---|
| *CHF billion* | **30.9.18** | **30.9.18** | 30.6.18 | 30.6.18 | 31.12.17 | 31.12.17 |
| Cash collateral on derivative instruments, based on IFRS netting[1] | **21.4** | **27.6** | 24.9 | 31.8 | 23.4 | 30.2 |
| Further netting potential not recognized on the balance sheet[2] | **(11.6)** | **(14.2)** | (13.0) | (15.5) | (12.5) | (17.4) |
| *of which: netting of recognized financial liabilities / assets* | ***(10.8)*** | ***(13.2)*** | *(12.5)* | *(14.5)* | *(11.7)* | *(16.3)* |
| *of which: netting with collateral received / pledged* | ***(0.8)*** | ***(1.1)*** | *(0.5)* | *(1.0)* | *(0.7)* | *(1.2)* |
| **Cash collateral on derivative instruments, after consideration of further netting potential** | **9.9** | **13.4** | 11.9 | 16.4 | 11.0 | 12.8 |

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

**Note 11 Other assets and liabilities**

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

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

1 Upon adoption of IFRS 9 on 1 January 2018, the classification of prime brokerage receivables and payables changed from amortized cost to fair value through profit or loss, and brokerage receivables and payables are now presented separately on the balance sheet. Refer to Note 18 for more information. 2 Related to financial advisors in the US and Canada.

### b) Other non-financial assets

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

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

**Note 11 Other assets and liabilities (continued)**

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

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

1 Upon adoption of IFRS 9 on 1 January 2018, the classification of prime brokerage receivables and payables changed from amortized cost to fair value through profit or loss, and brokerage receivables and payables are now presented separately on the balance sheet. Refer to Note 18 for more information.

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

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

**e) Other non-financial liabilities**

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

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

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

## Note 12 Debt issued designated at fair value

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

1 Includes investment fund unit-linked instruments issued.

## Note 13 Debt issued measured at amortized cost

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

1 Debt with an original maturity of less than one year. 2 Debt with an original maturity greater than or equal to one year. The classification of debt issued into short-term and long-term does not consider any early redemption features. 3 Net of bifurcated embedded derivatives, the fair value of which was not material for the periods presented.

**Note 14 Provisions and contingent liabilities**

## a) Provisions

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

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

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

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

| *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 | 294 | 125 | 55 | 89 | 3,051 |
| **Balance as of 30 June 2018** | 41 | 2,442 | 232 | 123 | 53 | 81 | 2,973 |
| Increase in provisions recognized in the income statement | 5 | 76 | 23 | 1 | 2 | 17 | **124** |
| Release of provisions recognized in the income statement | 0 | (72) | (12) | (1) | (2) | 0 | **(88)** |
| Provisions used in conformity with designated purpose | (4) | (109) | (36) | (6) | 0 | (9) | **(164)** |
| Capitalized reinstatement costs | 0 | 0 | 0 | (1) | 0 | 0 | **(1)** |
| Foreign currency translation / unwind of | 0 | (24) | (2) | (1) | (1) | 0 | **(28)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| discount | | | | | | | |
| **Balance as of 30 September 2018** | **42** | **2,312** | **205[3]** | **115[4]** | **52** | **89** | **2,815** |

1 Comprises provisions for losses resulting from security risks and transaction processing risks. 2 Comprises provisions for losses resulting from legal, liability and compliance risks. 3 Primarily consists of personnel-related restructuring provisions of CHF 37 million as of 30 September 2018 (30 June 2018: CHF 44 million; 31 December 2017: CHF 54 million) and provisions for onerous lease contracts of CHF 164 million as of 30 September 2018 (30 June 2018: CHF 183 million; 31 December 2017: CHF 235 million). 4 Consists of reinstatement costs for leasehold improvements of CHF 79 million as of 30 September 2018 (30 June 2018: CHF 84 million; 31 December 2017: CHF 86 million) and provisions for onerous lease contracts of CHF 36 million as of 30 September 2018 (30 June 2018: CHF 39 million; 31 December 2017: CHF 39 million). 5 Includes provisions for sabbatical and anniversary awards.

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

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

### b) Litigation, regulatory and similar matters

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

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

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

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

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

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

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

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

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

| *CHF million* | **Global Wealth Manage-ment** | **Personal & Corporate Banking** | **Asset Manage-ment** | **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 30 June 2018** | 567 | 75 | 0 | 333 | 216 | 0 | 1,251 | 2,442 |
| Increase in provisions recognized in the income statement | 31 | 0 | 0 | 11 | 30 | 0 | 4 | **76** |
| Release of provisions recognized in the income statement | (3) | 0 | 0 | (68) | (1) | 0 | 0 | **(72)** |
| Provisions used in conformity with designated purpose | (48) | 0 | 0 | 0 | 0 | 0 | (60) | **(109)** |
| Foreign currency translation / unwind of discount | (6) | 0 | 0 | (3) | 0 | 0 | (13) | **(24)** |
| **Balance as of 30 September 2018** | **541** | **75** | **0** | **272** | **244** | **0** | **1,180** | **2,312** |

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.

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

1. Inquiries regarding cross-border wealth management businesses

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

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

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

In February 2016, the investigating judges notified UBS AG and UBS (France) S.A. that they have closed their investigation. In July 2016, UBS AG and UBS (France) S.A. received the National Financial Prosecutor's recommendation ("*réquisitoire*"). In March 2017, the investigating judges issued the trial order ("*ordonnance de renvoi*") that charges UBS AG and UBS (France) S.A., as well as various former employees, with illicit solicitation of clients on French territory and with participation in the laundering of the proceeds of tax fraud, and that transfers the case to court. The trial started on 8 October 2018 and is scheduled to last until 15 November 2018.

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

UBS has, and reportedly numerous other financial institutions have, received inquiries from authorities concerning accounts relating to the Fédération Internationale de Football

Association (FIFA) and other constituent soccer associations and related persons and entities. UBS is cooperating with authorities in these inquiries.

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

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

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

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

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

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

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

*Lawsuits related to contractual representations and warranties concerning mortgages and RMBS:* When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which the representations related or to indemnify certain parties against losses. In 2012, certain RMBS trusts filed an action (Trustee Suit) in the US District Court for the Southern District of New York (SDNY) seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations issued and underwritten by UBS with an original principal balance of approximately USD 2 billion. In July 2018, UBS and the trustee entered into an agreement under which UBS will pay USD 850 million to resolve this matter. A significant portion of this amount will be borne by other parties that indemnified UBS. The settlement remains subject to approval by the court and proceedings to determine how the settlement funds will be distributed to RMBS holders. After giving effect to this settlement, UBS considers claims relating to substantially all loan repurchase demands to be resolved, and believes that new demands to repurchase US residential mortgage loans are time-barred under a decision rendered by the New York Court of Appeals.

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

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

### 3. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC (BMIS) investment fraud, UBS AG, UBS (Luxembourg) S.A. (now UBS Europe SE, Luxembourg branch) and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss

Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds faced severe losses, and the Luxembourg funds are in liquidation. The documentation establishing both funds identifies UBS entities in various roles, including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members.

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

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

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

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

4. Puerto Rico

Declines since 2013 in the market prices of Puerto Rico municipal bonds and of closed-end funds (funds) that are sole-managed and co-managed by UBS Trust Company of Puerto Rico and distributed by UBS Financial Services Incorporated of Puerto Rico (UBS PR) have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages of USD 2.8 billion, of which claims with aggregate claimed damages of USD 1.7 billion have been resolved through settlements, arbitration or withdrawal of the claim. The claims have been filed by clients in Puerto Rico who own the funds or Puerto Rico municipal bonds and / or who used their UBS account assets as collateral for UBS non-purpose loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the funds and of the loans.

A shareholder derivative action was filed in 2014 against various UBS entities and current and certain former directors of the funds, alleging hundreds of millions of US dollars in losses in the funds. In 2015, defendants' motion to dismiss was denied and a request for permission to appeal that ruling was denied by the Puerto Rico Supreme Court. In 2014, a federal class action complaint also was filed against various UBS entities, certain members of UBS PR senior management and the co-manager of certain of the funds, seeking damages for investor losses in the funds during the period from May 2008 through May 2014. In September 2018 the court denied plaintiffs' motion for class certification.

In 2015, a class action was filed in Puerto Rico state court against UBS PR seeking equitable relief in the form of a stay of any effort by UBS PR to collect on non-purpose loans it acquired from UBS Bank USA based on plaintiffs' allegation that the loans are not valid. The trial court granted UBS PR's motion for summary judgment and dismissed the action.

In 2014 and 2015, UBS entered into settlements with the Office of the Commissioner of Financial Institutions for the Commonwealth of Puerto Rico (OCFI), the SEC and the Financial Industry Regulatory Authority (FINRA) in relation to their examination of UBS's operations. We also understand that the DOJ is conducting a criminal inquiry into the impermissible reinvestment of non-purpose loan proceeds. We are cooperating with the authorities in this inquiry.

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

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

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

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

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

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

*Foreign exchange-related civil litigation:* Putative class actions have been filed since 2013 in US federal courts and in other jurisdictions against UBS and other banks on behalf of putative classes of persons who engaged in foreign currency transactions with any of the defendant banks. UBS has entered into a settlement agreement that would resolve US federal court class actions relating to foreign currency transactions with the defendant banks and persons who transacted in foreign exchange futures contracts and options on such futures. The settlement agreement, which has been approved by the court, requires, among other things, that UBS pay an aggregate of USD 141 million and provide cooperation to the settlement classes.

A putative class action has been filed in federal court in New York against UBS and other banks on behalf of participants, beneficiaries and named fiduciaries of plans qualified under the Employee Retirement Income Security Act of 1974 (ERISA) for whom a defendant bank provided foreign exchange transactional services or authorized or permitted the execution of any foreign currency exchange transactional services involving such plan's assets. The complaint asserts claims under ERISA. In July 2018, the Second Circuit affirmed the dismissal of the case with prejudice.

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

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

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

Putative class actions were also filed against UBS and other banks in federal court in New York and other jurisdictions on behalf of putative classes of persons who had bought or sold physical precious metals and various precious metal products and derivatives. The complaints in these lawsuits asserted claims under the antitrust laws and the Commodity Exchange Act (CEA), and other claims. In July 2018, the court in New York granted UBS's motions to dismiss amended complaints in the putative class actions relating to gold and silver. In 2017, the court granted UBS's motion to dismiss the platinum and palladium action. Plaintiffs in the platinum and palladium action subsequently filed an amended complaint that did not allege claims against UBS.

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

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

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

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

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

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

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

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

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

### 6. Swiss retrocessions

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

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

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

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

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

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

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

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

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

1 Cash to be paid in the future by either UBS or the counterparty. Upon adoption of IFRS 9 on 1 Janua
transactions are presented as measured at fair value through profit or loss. Refer to Note 18 for more

**Note 16 Events after the reporting period**

Changes to functional and presentation currencies

Effective 1 October 2018, and as required by IAS 21, The Effects of Changes in Foreign Exchange Rates, the functional currency of UBS Group AG and UBS AG's Head Office in Switzerland has changed from Swiss francs to US dollars, and the functional currency of UBS AG's London Branch operations has changed from British pounds to US dollars. In line with these changes, the presentation currency of UBS Group AG's and UBS AG's consolidated financial statements will change from Swiss francs to US dollars. Prior periods will be restated for this presentation currency change, with assets, liabilities and total equity converted to US dollars at historic closing exchange rates prevailing on the respective balance sheet dates, and income and expenses translated at the respective average rates prevailing for the relevant periods. There will be no material changes to prior-period profit and loss or total equity attributable to UBS AG shareholders as a result of this change.

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

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

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

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

## Increase in stake in UBS Securities China

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

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

## Worldline to acquire SIX Payment Services

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

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

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

## Note 17 Currency translation rates

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

| | Spot rate | | | | Average rate[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | As of | | | | For the quarter ended | | | Year-to-date | |
| | **30.9.18** | 30.6.18 | 31.12.17 | 30.9.17 | **30.9.18** | 30.6.18 | 30.9.17 | 30.9.18 | 30.9.17 |
| 1 USD | **0.98** | 0.99 | 0.97 | 0.97 | **0.98** | 0.99 | 0.97 | 0.97 | 0.98 |
| 1 EUR | **1.14** | 1.16 | 1.17 | 1.14 | **1.14** | 1.17 | 1.14 | 1.16 | 1.10 |
| 1 GBP | **1.28** | 1.31 | 1.32 | 1.30 | **1.28** | 1.33 | 1.27 | | |