UBS Group AG
Form 20-F
March 15, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

UBS Group AG

Commission file number: 1-36764

UBS AG

Commission file number: 1-15060

(Exact Name of Registrants as Specified in Their Respective Charters)

Switzerland
(Jurisdiction of Incorporation or Organization)

UBS Group AG

Bahnhofstrasse 45, CH-8001 Zurich, Switzerland

(Address of Principal Executive Office)

UBS AG

Bahnhofstrasse 45, CH-8001 Zurich, Switzerland and

Aeschenvorstadt 1, CH-4051 Basel, Switzerland
(Address of Principal Executive Offices)

David Kelly
600 Washington Boulevard

Stamford, CT 06901

Telephone: (203) 719-3000

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:
Please see page 4-5.

Securities registered or to be registered pursuant to Section 12(g) of the Act:
Please see page 5.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
Please see page 5.

Indicate the number of outstanding shares of each of each issuer's classes of capital or common stock as of 31 December 2018:

UBS Group AG

Ordinary shares, par value CHF 0.10 per share:

3,855,634,749 ordinary shares

(including 166,204,274 treasury shares)

UBS AG

Ordinary shares, par value CHF 0.10 per share: 3,858,408,466 ordinary shares

(none of which are treasury shares)

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act.

UBS Group AG

Yes o No

UBS AG

Yes No

If this report is an annual or transition report, indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrants were required to file such reports) and (2) have been subject to such filing requirements for the past 90 days.

Yes No o

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

Yes No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or an emerging growth company. See definition of “accelerated filer and large accelerated filer” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check One):

UBS Group AG

Large accelerated filer	Accelerated filer o	Non-accelerated filer
		Emerging growth company

UBS AG

Large accelerated filer	Accelerated filer	Non-accelerated filer
		Emerging growth company

Indicate by check mark which basis of accounting the registrants have used to prepare the financial statements included in this filing.

U.S. GAAP o Other o

International Financial Reporting Standards as issued by the International Accounting Standards Board

3

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrants have elected to follow.

Item 17 o Item 18 o

If this is an annual report, indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act)

Yes o No

Securities registered or to be registered pursuant to Section 12(b) of the Act:

UBS Group AG

Title of each class	**Name of each exchange on which registered**
Ordinary Shares (par value of CHF 0.10 each)	New York Stock Exchange

UBS AG

Title of each class	**Name of each exchange on which registered**
UBS AG FI Enhanced Large Cap Growth ETN due June 19, 2024	NYSE Arca
UBS AG FI Enhanced Europe 50 ETN due February 12, 2026	NYSE Arca
UBS AG FI Enhanced Global High Yield ETN due March 3, 2026	NYSE Arca
E-TRACS Linked to the UBS Bloomberg CMCI Food Total Return due April 5, 2038	NYSE Arca
E-TRACS Linked to the UBS Bloomberg CMCI Agriculture Total Return due April 5, 2038	NYSE Arca
E-TRACS Linked to the UBS Bloomberg CMCI Total Return due April 5, 2038	NYSE Arca
E-TRACS Linked to the UBS Bloomberg CMCI Total Return Series B due April 5, 2038	NYSE Arca
E-TRACS Linked to the UBS Bloomberg CMCI Gold Total Return due April 5, 2038	NYSE Arca
E-TRACS Linked to the UBS Bloomberg CMCI Silver Total Return due April 5, 2038	NYSE Arca
E-TRACS Linked to the Bloomberg Commodity Index Total Return^{SM} due October 31, 2039	NYSE Arca
E-TRACS Linked to the Alerian MLP Infrastructure Index due April 2, 2040	NYSE Arca
E-TRACS Linked to the Alerian MLP Infrastructure Index Series B due April 2, 2040	NYSE Arca
E-TRACS Linked to the Alerian Natural Gas MLP Index due July 9, 2040	NYSE Arca
E-TRACS Linked to the Wells Fargo® Business Development Company Index due April 26, 2041	NYSE Arca
E-TRACS Linked to the Wells Fargo® Business Development Company Index Series B due April 26, 2041	NYSE Arca
	NYSE Arca

2×Leveraged Long E-TRACS Linked to the Wells Fargo® Business Development Company Index due May 24, 2041	
2×Leveraged Long E-TRACS Linked to the Wells Fargo® Business Development Company Index Series B due May 24, 2041	NYSE Arca
ETRACS Monthly Pay 2xLeveraged Dow Jones Select Dividend Index ETN due May 22, 2042	NYSE Arca
ETRACS Monthly Pay 2xLeveraged S&P Dividend ETN due May 22, 2042	NYSE Arca
ETRACS Alerian MLP Index ETN due July 18, 2042	NYSE Arca
ETRACS Alerian MLP Index ETN Series B due July 18, 2042	NYSE Arca
ETRACS Monthly Pay 2xLeveraged Mortgage REIT ETN due October 16, 2042	NYSE Arca
ETRACS Monthly Pay 2xLeveraged Mortgage REIT ETN Series B due October 16, 2042	NYSE Arca
ETRACS Monthly Pay 2xLeveraged Diversified High Income ETN due November 12, 2043	NYSE Arca
ETRACS Monthly Pay 2xLeveraged Closed-End Fund ETN due December 10, 2043	NYSE Arca
ETRACS Monthly Pay 2xLeveraged Wells Fargo MLP Ex-Energy ETN due June 24, 2044	NYSE Arca
ETRACS Monthly Pay 2xLeveraged US High Dividend Low Volatility ETN due September 30, 2044	NYSE Arca
ETRACS Monthly Pay 2xLeveraged US Small Cap High Dividend ETN due February 6, 2045	NYSE Arca
ETRACS Monthly Reset 2xLeveraged ISE Exclusively Homebuilders ETN due March 13, 2045	NYSE Arca
ETRACS Monthly Pay 2xLeveraged MSCI US REIT index ETN due May 5, 2045	NYSE Arca
ETRACS 2xMonthly Leveraged S&P MLP Index ETN Series B due February 12. 2046	NYSE Arca
ETRACS 2xMonthly Leveraged Alerian MLP Infrastructure Index ETN Series B due February 12, 2046	NYSE Arca
ETRACS S&P GSCI Crude Oil Total Return Index ETN due February 22, 2046	NYSE Arca
ETRACS ProShares Daily 3x Long Crude ETN linked to the Bloomberg WTI Crude Oil Subindex ER due January 4, 2047	NYSE Arca
ETRACS ProShares Daily 3x Inverse Crude ETN linked to the Bloomberg WTI Crude Oil Subindex ER due January 4, 2047	NYSE Arca
VelocitySharesTM 1X Long VSTOXX Futures ETN linked to the VSTOXX Short-Term Futures Investable Index due May 3, 2047	Cboe
VelocitySharesTM 1X Daily Inverse VSTOXX Futures ETN linked to the VSTOXX Short-Term Futures Inverse Investable Index due May 3, 2047	Cboe

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements that constitute "forward-looking statements," including but not limited to management's outlook for UBS's financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS's business and future development. While these forward-looking statements represent UBS's judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's expectations. These factors include, but are not limited to: (i) the degree to which UBS is successful in the ongoing execution of its strategic plans, including its cost reduction and efficiency initiatives and its ability to manage its levels of risk-weighted assets (RWA) and leverage ratio denominator (LRD), including to counteract regulatory-driven increases, leverage ratio denominator, liquidity coverage ratio and other financial resources, and the degree to which UBS is successful in implementing changes to its businesses to meet changing market, regulatory and other conditions; (ii) the continuing low or negative interest rate environment in Switzerland and other jurisdictions, developments in the macroeconomic climate and in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effects of economic conditions, market developments, and geopolitical tensions on the financial position or creditworthiness of UBS's clients and counterparties as well as on client sentiment and levels of activity; (iii) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt eligible for total loss-absorbing capacity (TLAC); (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK, the European Union and other financial centers that have imposed, or resulted in, or may do so in the future, more stringent or entity-specific capital, TLAC, leverage ratio, liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration, constraints on transfers of capital and liquidity and sharing of operational costs across the Group or other measures, and the effect these will or would have on UBS's business activities; (v) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, proposals in Switzerland and other jurisdictions for mandatory structural reform of banks or systemically important institutions or to other external developments, and the extent to which such changes will have the intended effects; (vi) UBS's ability to maintain and improve its systems and controls for the detection and prevention of money laundering and compliance with sanctions to meet evolving regulatory requirements and expectations, in particular in the US; (vii) the uncertainty arising from the timing and nature of the UK exit from the EU; (viii) changes in UBS's competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS's ability to compete in certain lines of business; (ix) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including recently enacted and proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (x) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses, potentially large fines or monetary penalties, or the loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational risk component of our RWA as well as the amount of capital available for return to shareholders; (xi) the effects on UBS's cross-border banking business of tax or regulatory developments and of possible changes in UBS's policies and practices relating to this business; (xii) UBS's ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors; (xiii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xiv) UBS's ability to implement new technologies and business methods, including digital services and technologies and ability to successfully compete with both existing and new financial service providers, some of which may not be regulated to the same extent; (xv) limitations on the effectiveness of

UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyberattacks, and systems failures; (xvii) restrictions on the ability of UBS Group AG to make payments or distributions, including due to restrictions on the ability of its subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA or the regulators of UBS's operations in other countries of their broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; (xviii) the degree to which changes in regulation, capital or legal structure, financial results or other factors may affect UBS's ability to maintain its stated capital return objective; and (xix) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

Cross-reference table

Set forth below are the respective items of SEC Form 20-F, and the locations in this document where the corresponding information can be found.

- **Annual Report** refers to the Annual Report 2018 of UBS Group AG and UBS AG annexed hereto, which forms an integral part hereof.
- **Supplement** refers to certain supplemental information contained in this forepart of the Form 20-F, starting on page 13 following the cross-reference table.
- **Financial Statements** refers to the consolidated financial statements of either UBS Group AG or UBS AG, or both, depending upon the context, contained in the Annual Report.

In the cross-reference table below, page numbers refer to either the Annual Report or the Supplement, as noted.

Please see page 6 of the Annual Report for definitions of terms used in this Form 20-F relating to UBS.

Form 20-F item	Response or location in this filing
Item 1. Identity of Directors, Senior Management and Advisors.	Not applicable.
Item 2. Offer Statistics and Expected Timetable.	Not applicable.
Item 3. Key Information	
A – Selected Financial Data	Annual Report, *Selected Financial Data* (714-717 and 737-740), *Statement of changes in equity* (316-320 and 512-516) and *UBS shares* (216).
B – Capitalization and Indebtedness.	Not applicable.
C – Reasons for the Offer and Use of Proceeds.	Not applicable.
D – Risk Factors.	Annual Report, *Risk factors* (50-61).
Item 4. Information on the Company.	
A – History and Development of the Company	1-3: Annual Report, *Corporate information* and *Contacts* (5). The registrants' agent is David Kelly, 600 Washington Boulevard, Stamford, CT 06901. 4: Annual Report, *Our evolution* (12-13); *Our strategy* (16); *Our businesses* (19-28); Note 32 to each set of Financial Statements (*Changes in organization and acquisitions and disposals of*

	subsidiaries and businesses) (489) and (684) 5: Refer to our management discussion and analysis for a description of material acquisitions and divestitures in Annual Report, *Our businesses* (19-28), as applicable; *Our focus on technology* (34-35); also refer to Note 15 to each set of Financial Statements (*Property, equipment and software)* (397 and 592) and Note 32 to each set of Financial Statements (*Changes in organization and acquisitions and disposals of subsidiaries and businesses*) (489) and (684). 6-7: Nothing to disclose. 8: Annual Report, *Information sources* (762).
B – Business Overview.	1, 2, 5 and 7: Annual Report, *Our strategy,business model and environment* (15-61), Note 2a to each set of Financial Statements (*Segment reporting)* (373-376 and 569-572) and Note 2b to each set of Financial Statements (*Segment reporting by geographic location)* (377 and 573). See also Supplement (13). 3: *Seasonal characteristics* (77). 4: Not applicable. 6: None. 8: *Regulation and supervision* (43-44) and *Regulatory and legal developments* (45-49). Supplement (14).

C – Organizational Structure.	Annual Report, *Our evolution* (12-13) and Note 31 to each set of Financial Statements (*Interests in subsidiaries and other entities)* (481-488 and 676-683).
D – Property, Plant and Equipment.	Annual Report, *Property, plant and equipment* (718 and 741), Note 15 to each set of Financial Statements (*Property, equipment and software)* (397 and 592), Note 33 to each set of Financial Statements (*Operating leases and finance leases*) (490 and 685).
Information required by Industry Guide 3	Annual Report, *Information required by industry guide 3* (719-735 and 742-758) and *Selected financial data* (714-717 and 737-740).
Item 4A. Unresolved Staff Comments.	None.
Item 5. Operating and Financial Review and Prospects.	
A – Operating Results.	Annual Report, *Our key figures* (6-7), *UBS AG consolidated key figures* (501-503), *Performance targets and measurement* (17-18), *Group performance* (68-81), financial and operating performance by business division and Corporate Center (82-115), Note 2a to each set of Financial Statements (*Segment reporting)* (373-376 and 569-572), *Currency management* (192), *Capital management* (194-218), *Risk factors* (50-61), *Our environment* (29-31), Note 28 to each set of Financial Statements (*Hedge Accounting)* (452-457 and 648-653), *Regulatory and legal developments* (45-49), *Significant accounting and financial reporting changes* (65-67) and Note 32 to each set of Financial Statements (*Changes in organization and acquisitions and disposals of subsidiaries and businesses*) (489) and (684).
B – Liquidity and Capital Resources.	Annual Report, *Substantial changes in the regulation may adversely affect our businesses and our ability to execute our strategic plans* (*Higher capital and total loss-absorbing capacity requirements increase our costs*) (51-53), *As UBS Group AG is a holding company, its operating results, financial condition and ability to pay dividends and other distributions and/or to pay its obligations in the future depend on funding, dividends and other distributions received directly or indirectly from its subsidiaries, which may be subject to restrictions* (60-61), *Group performance* (68-81), financial and operating performance by business division and Corporate Center (82-115), *Seasonal characteristics* (77), *Interest rate risk in the banking book* (159-163), *Balance sheet, liquidity and funding management* (173-188),*Currency management* (192), *Cash flows* (193), *Capital management* (194-218), Note 26a to each set of Financial Statements (*Restricted financial assets)* (448-449 and 644-645), Note 13 (*Financial assets and liabilities at fair value not held for trading*) (396 and 591), Note 14 (*Financial assets measured at fair value through other comprehensive income*) (396 and 591), and Note 17a (*Other financial assets measured at amortized cost*) (401 and 596), Note 11 to each set of Financial Statements (*Derivative instruments)* (391-395 and 586-590), Note 19 to each set of Financial Statements (*Debt issued designated at fair value)* (402 and 598), Note 20 to each set of Financial Statements (*Debt issued measured at amortized cost*) (403-404 and 599-600),

	Short-term borrowings (726 and 749), Note 15 to each set of Financial Statements (*Property, equipment and software)* (397 and 592) and Note 28 to each set of Financial Statements (*Hedge Accounting)* (452-457 and 648-653). We believe that our working capital is sufficient for the company's present requirements. Liquidity and capital management is undertaken at UBS as an integrated asset and liability management function.
C—Research and Development, Patents and Licenses, etc.	Not applicable.
D—Trend Information.	Annual Report, *Our businesses* (19-28), *Our environment* (29-31), *Regulatory and legal developments* (45-49), *Risk factors* (50-61), *Financial and operating performance* (63-115) and *Top and emerging risks* (122).
E—Off-Balance Sheet Arrangements.	Annual Report, *Off-balance sheet* (189-191), Note 31c) to each set of Financial Statements (*Interests in unconsolidated structured entities*) (484-488 and 679-683), Note 26 to each set of Financial Statements (*Restricted and transferred financial assets)* (448-450 and 644-646) and Note 33 to each set of Financial Statements (*Operating leases and finance leases*) (490 and 685).
F—Tabular Disclosure of Contractual Obligations.	Annual Report, *Contractual obligations* (191).
Item 6. Directors, Senior Management and Employees.	
A – Directors and Senior Management.	1, 2 and 3: Annual Report, *Board of Directors* (230-234) and *Group Executive Board* (243-248). 4, 5: None.

B – Compensation.	1: Annual Report, *Compensation* (254-303), Note 30 to each set of Financial Statements (*Employee benefits: variable compensation)* (473-480 and 669-675) and Note 35 to each set of Financial Statements (*Related parties)* (492-494 and 687-689). 2: Annual Report, Note 29 to each set of Financial Statements (*Pension and other post-employment benefit plans)* (458-472 and 654-668).
C – Board practices.	1: Annual Report, *Board of Directors* (230-242). The term of office for members of the Board of Directors and its Chairman expires after completion of the next Annual General Meeting. The next Annual General Meeting is scheduled on 2 May 2019. 2: Annual Report, *Compensation* (254-303) and Note 35 to each set of Financial Statements (*Related parties)* (492-494 and 687-689). 3: Annual Report, *Audit committee* (237) and *Compensation Committee* (238). Refer to the Supplement (18) for information on UBS AG's Board of Directors' executive sessions.
D—Employees.	Annual Report, *Employees* (37-39) and *Financial and operating performance* (63-115).
E—Share Ownership.	Annual Report, 298-300, Note 30 to each set of Financial Statements (*Employee benefits: variable compensation)* (473-480 and 669-675) and Note 35b to each set of Financial Statements (*Equity holdings of key management personnel)* (492 and 687).
Item 7. Major Shareholders and Related Party Transactions.	
A—Major Shareholders.	Annual Report, *Group structure and shareholders* (222-223), *Share capital structure* (224-227) and *Voting rights, restrictions and representation* (228). The number of shares of UBS Group AG held by the respective shareholders listed on page 223 of the Annual Report registered in the UBS share register with 3% or more of total share capital as of 31 December 2018 is as follows: Shareholder — Number of shares held Chase Nominees Ltd., London — 465,870,853 DTC (Cede & Co.), New York — 278,712,614 Nortrust Nominees Ltd., London — 159,517,521 The number of shares of UBS AG held by UBS Group AG as of 31 December 2018 was 3,858,408,466 shares.
B—Related Party Transactions.	Annual Report, *Loans granted to GEB members* (301), *Loans granted to BoD members* (301) and Note 35 to each set of Financial Statements (*Related parties)* (492-494 and 687-689).

	The loans disclosed in such sections (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and (c) did not involve more than the normal risk of collectability or present other unfavorable features.
C—Interests of Experts and Counsel	Not applicable.

Item 8. Financial Information.	
A—Consolidated Statements and Other Financial Information.	1, 2, 3, 4, 6: Please see Item 18 of this Form 20-F. 5: Not applicable. 7: Information on material legal and regulatory proceedings is in Note 21 to each set of Financial Statements (*Provisions and contingent liabilities)* (405-412 and 601-608). For developments during the year, please see also the note *Provisions and contingent liabilities* in the Financial Information section in our respective quarterly reports for the First, Second and Third Quarters 2018, filed on Forms 6-K dated April 23, 2018 (UBS Group AG) and April 27, 2018 (UBS AG), July 24, 2018 (UBS Group AG) and July 27, 2018 (UBS AG) and October 25, 2018 (UBS Group AG) and October 31, 2018 (UBS AG), respectively; as well as the *Provisions and contingent liabilities* section in the Fourth Quarter 2018 Report, filed on Form 6-K dated January 22, 2019. The disclosures in each such Quarterly Report speak only as of their respective dates. 8: Annual Report, *Shareholder returns* (36), *Our stated capital returns objective is based, in part, on capital ratios that are subject to regulatory change and may fluctuate significantly* (60), *Distributions to shareholders* (227).
B—Significant Changes.	Annual Report, Note 1 to each set of Financial Statements (*Summary of significant accounting policies)* (323-372 and 519-568) and Note 38 to each set of Financial Statements (*Events after the reporting period)* (496 and 691).
Item 9. The Offer and Listing.	
A – Offer and Listing Details.	Not applicable.
B—Plan of Distribution.	Not applicable.
C—Markets.	Annual Report, *Listing of UBS Group AG shares* (218).
D—Selling Shareholders.	Not applicable.
E—Dilution.	Not applicable.
F—Expenses of the Issue.	Not applicable.
Item 10. Additional Information.	
A—Share Capital.	Not applicable.
B—Memorandum and Articles of Association.	Annual Report, *Elections and terms of office* (235), *Share capital structure* (224-227), *Organizational principles and structure* (235-239), *Shareholders' participation rights* (228-229), *Significant shareholders* (222-223), *Change of control and defense measures* (249), *Board of Directors* (229-241), *Our compensation governance* (284-285) and *2018 compensation for the Board of Directors* (286-288). Supplement (15-20).

C—Material Contracts.	The Terms & Conditions of the several series of capital instruments issued to date, and to be issued pursuant to Deferred Capital Contingent Plans, are exhibits 4.1 through 4.19 to this Form 20-F. These notes are described under *Capital and other instruments contributing to our total loss-absorbing capacity* on page 197 of the Annual Report and *Deferred Contingent Capital Plan* on page 274 of the Annual Report. The settlement agreements and orders filed as exhibits 4.20 through 4.24 are described in item 5 (*Foreign exchange, LIBOR and benchmark rates, and other trading practices*) of Note 21 (*Provisions and contingent liabilities*) to each set of Financial Statements (406-413 and 602-609). The Asset Transfer Agreement by which certain assets and liabilities of UBS AG were transferred to UBS Switzerland AG is filed as Exhibit 4.25, and is described under *Joint liability of UBS Switzerland AG* on page 696 of the Annual Report.

D—Exchange Controls.	Other than in relation to economic sanctions, there are no restrictions under the Articles of Association of UBS Group AG or UBS AG, nor under Swiss law, as presently in force, that limit the right of non-resident or foreign owners to hold UBS's securities freely. There are currently no Swiss foreign exchange controls or other Swiss laws restricting the import or export of capital by UBS or its subsidiaries, nor restrictions affecting the remittance of dividends, interest or other payments to non-resident holders of UBS securities. The Swiss federal government may impose sanctions on particular countries, regimes, organizations or persons which may create restrictions on exchange of control. A current list, in German, French and Italian, of such sanctions can be found at www.seco-admin.ch. UBS may also be subject to sanctions regulations from other jurisdictions where it operates imposing further restrictions.
E—Taxation.	Supplement (20-22).
F—Dividends and Paying Agents.	Not applicable.
G—Statement by Experts.	Not applicable.
H—Documents on Display.	UBS files periodic reports and other information with the Securities and Exchange Commission. You may read and copy any document that we file with the SEC on the SEC's website, *www.sec.gov*. Much of this information may also be found on the UBS website at *www.ubs.com/investors*.
I—Subsidiary Information.	Not applicable.
Item 11. Quantitative and Qualitative Disclosures About Market Risk.	
(a) Quantitative Information About Market Risk.	Annual Report, *Market risk* (134-164).
(b) Qualitative Information About Market Risk.	Annual Report, *Market risk* (134-164).
(c) Interim Periods.	Not applicable.
Item 12. Description of Securities Other than Equity Securities.	
A – Debt Securities	Not applicable.
B – Warrants and Rights	Not applicable.
C – Other Securities	Not applicable.
D – American Depositary Shares	Not applicable.
Item 13. Defaults, Dividend Arrearages and Delinquencies.	There has been no material default in respect of any indebtedness of UBS or any of its significant subsidiaries or any arrearages of dividends or any other material delinquency not cured within 30 days relating to any preferred stock of UBS Group AG or any of its significant subsidiaries.
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.	None.
Item 15. Controls and Procedures.	
(a) Disclosure Controls and Procedures	Annual Report, *US disclosure requirements* (254), and Exhibit 12 to this Form 20-F.
(b) Management's Annual Report on Internal Control over Financial Reporting	Annual Report, *Management's reports on internal control over financial reporting* (309 and 504).

(c) Attestation Report of the Registered Public Accounting Firm	Annual Report, *Reports of Independent Registered Public Accounting Firm* (310-311 and 505-506).
(d) Changes in Internal Control over Financial Reporting	None.

Item 15T. Controls and Procedures.	Not applicable.
Item 16A. Audit Committee Financial Expert.	Annual Report, *Audit Committee* (237) and *Differences from corporate governance standards relevant to US-listed companies* (220-221). All Audit Committee members have accounting or related financial management expertise and in compliance with the rules established pursuant to the US Sarbanes-Oxley Act of 2002, at least one member, the Chairperson Jeremy Anderson, qualifies as a financial expert.
Item 16B. Code of Ethics.	Annual Report, *Code of Conduct and Ethics* (40). UBS's Code of Conduct and Ethics ("the Code") is published on our website under https://www.ubs.com/global/en/about_ubs/about_us/code_of_conduct.html. The Code is regularly reviewed to make sure it is consistent with the rest of UBS's policies, as well as the law. No waiver from any provision of the Code was granted to any employee in 2018.
Item 16C. Principal Accountant Fees and Services.	Annual Report, *Auditors* (250-251). None of the non-audit services so disclosed were approved by the Audit Committee pursuant to paragraph (c) (7)(i)(C) of Rule 2-01 of Regulation S-X.
Item 16D. Exemptions from the Listing Standards for Audit Committees.	Not applicable.
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.	Annual Report, *Treasury share purchases* (217). On 22 January 2018, UBS Group AG announced its intention to buy back its own registered shares over the coming three years starting from March 2018, amounting to a maximum of CHF 2 billion.
Item 16F. Changes in Registrant's Certifying Accountant.	Not applicable.
Item 16G. Corporate Governance.	Annual Report, *Differences from corporate governance standards relevant to US-listed companies* (220-221).
Item 16H. Mine Safety Disclosure.	Not applicable.
Item 17. Financial Statements.	Not applicable.
Item 18. Financial Statements.	Annual Report, *Consolidated financial statements* (305-706), *Significant regulated subsidiary and sub-group information* (707-709) and *Additional regulatory information* (711-758).
Item 19. Exhibits	Supplement (23-24).

Supplemental information

Item 4. Information on the Company

B – Business Overview

Item 4.B.2. Geographic breakdown of revenues

The operating regions shown in the table below correspond to the regional management structure of the Group. The allocation of operating income to these regions reflects, and is consistent with, the basis on which the business is managed and its performance is evaluated. These allocations involve assumptions and judgments that management considers to be reasonable, and may be refined to reflect changes in estimates or management structure.

The main principles of the allocation methodology are that client revenues are attributed to the domicile of the client, and trading and portfolio management revenues are attributed to the country where the risk is managed. This revenue attribution is consistent with the mandate of the regional Presidents. Certain revenues, such as those related to the Corporate Center – Non-core and Legacy Portfolio, are managed at a Group level. These revenues are included in the *Global* column.

USD billion

Business Division	FY	Americas	Asia Pacific	EMEA	Switzerland	Global	Total
Global Wealth Management	2018	9.2	2.4	3.6	1.6	0.1	16.9
	2017[1]	8.8	2.3	3.6	1.6	0.0	16.3
	2016[1]	8.2	2.0	3.5	1.5	0.0	15.2
Personal & Corporate Banking	2018	0.0	0.0	0.0	4.2	0.0	4.2
	2017[1]	0.0	0.0	0.0	3.9	0.0	3.9
	2016[1]	0.0	0.0	0.0	4.0	0.0	4.0
Asset Management	2018	0.5	0.4	0.3	0.7	(0.1)	1.9
	2017[1]	0.5	0.4	0.4	0.7	0.1	2.1
	2016[1]	0.5	0.4	0.4	0.7	0.0	2.0
Investment Bank	2018	3.0	2.2	2.3	0.8	(0.1)	8.1
	2017[1]	2.9	2.1	2.2	0.8	(0.1)	7.8
	2016[1]	2.9	1.9	2.3	0.8	(0.1)	7.8
Corporate Center	2018	0.0	0.0	0.0	0.0	(1.0)	(1.0)
	2017[1]	0.0	0.0	0.0	0.0	(0.5)	(0.5)
	2016[1]	0.0	0.0	0.0	0.0	(0.3)	(0.3)

	2018	12.8	5.0	6.3	7.3	(1.1)	30.2
Group	2017[1]	12.1	4.8	6.2	7.0	(0.5)	29.6
	2016[1]	11.6	4.3	6.2	7.0	(0.4)	28.7

1 Comparative figures have been restated for the change of the presentation currency from Swiss francs to US dollars. Comparatives may additionally differ due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period.

13

Disclosure Pursuant To Section 219 of the Iran Threat Reduction And Syrian Human Rights Act

Section 219 of the US Iran Threat Reduction and Syria Human Rights Act of 2012 (“ITRA”) added Section 13(r) to the US Securities Exchange Act of 1934, as amended (the “Exchange Act”) requiring each SEC reporting issuer to disclose in its annual and, if applicable, quarterly reports whether it or any of its affiliates have knowingly engaged in certain activities, transactions or dealings relating to Iran or with the Government of Iran or certain designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction during the period covered by the report. The required disclosure may include reporting of activities not prohibited by US or other law, even if conducted outside the US by non-US affiliates in compliance with local law. Pursuant to Section 13(r) of the Exchange Act, we note the following for the period covered by this annual report:

UBS has a Group Sanctions Policy that prohibits transactions involving sanctioned countries, including Iran, and sanctioned individuals and entities. However, UBS maintains one account involving the Iranian government under the auspices of the United Nations in Geneva after agreeing with the Swiss government that it would do so only under certain conditions. These conditions include that payments involving the account must: (1) be made within Switzerland; (2) be consistent with paying rent, salaries, telephone and other expenses necessary for its operations in Geneva; and (3) not involve any Specially Designated Nationals (SDNs) blocked or otherwise restricted under US or Swiss law. In 2018, the gross revenues for this UN-related account were approximately USD 3,270. We do not allocate expenses to specific client accounts in a way that enables us to calculate net profits with respect to any individual account. UBS AG intends to continue maintaining this account pursuant to the conditions it has established with the Swiss Government and consistent with its Group Sanctions Policy. UBS also maintains a rental surety (effectively a rental security deposit) account in relation to the Government of Iran's UN Mission premises in Geneva; there were no revenues for this account.

As previously reported, UBS had certain outstanding legacy trade finance arrangements issued on behalf of Swiss client exporters in favor of their Iranian counterparties. In February 2012 UBS ceased accepting payments on these outstanding export trade finance arrangements and worked with the Swiss government who insured these contracts (Swiss Export Risk Insurance "SERV"). On December 21, 2012, UBS and the SERV entered into certain Transfer and Assignment Agreements under which SERV purchased all of UBS's remaining receivables under or in connection with Iran-related export finance transactions. Hence, the SERV is the sole beneficiary of said receivables. There was no financial activity involving Iran in connection with these trade finance arrangements in 2018, and no gross revenue or net profit.

In connection with these trade finance arrangements, UBS has maintained one existing account relationship with an Iranian bank. This account was established prior to the US designation of this bank and maintained due to the existing trade finance arrangements. In 2007, following the designation of the bank pursuant to sanctions issued by the US, UN and Switzerland, the account was blocked under Swiss law and remained subject to blocking requirements until January 2016. Client assets as of December 2018 were USD 3,117. There have been no transactions involving this account in 2018 other than general account fees. The gross revenues to report for 2018 are USD 10.

Item 10. Additional Information.

B—Memorandum and Articles of Association.

Please see the Articles of Association of UBS Group AG and of UBS AG (Exhibits 1.1 and 1.2, respectively, to this Form 20-F) and the Organization Regulations of UBS Group AG and UBS AG (Exhibit 1.3 and 1.4, respectively, to this Form 20-F).

Set forth below is a summary of the material provisions of the Articles of Association of UBS Group AG (which we call the "Articles" throughout this document), Organization Regulations of UBS Group AG (which we call the "Organization Regulations" throughout this document) and relevant Swiss laws, in particular the Swiss Code of Obligations, relating to our shares. This description does not purport to be complete and is qualified in its entirety by references to Swiss law, including Swiss company law, and to the Articles and Organization Regulations.

The Articles of Association and Organization Regulations of UBS AG are substantially similar to the Articles and Organization Regulations of UBS Group AG, so the following description applies equally to UBS AG, except where indicated that it refers to only one of the companies.

The principal legislation under which UBS Group AG and UBS AG operate, and under which the ordinary shares of UBS Group AG are issued, is the Swiss Code of Obligations.

The shares are registered shares with a par value of CHF 0.10 per share. The shares are fully paid up, and there is no liability of shareholders to further capital calls by the company. The shares rank *pari passu* in all respects with each other, including voting rights, entitlement to dividends, liquidation proceeds in case of the liquidation of the company, subscription or preemptive rights in the event of a share issue (*Bezugsrechte*) and preemptive rights in the event of the issuance of equity-linked securities (*Vorwegzeichnungsrechte*).

Each share carries one vote at our shareholders' meetings. Voting rights may be exercised only after a shareholder has been recorded in our share register as a shareholder with voting rights. Registration with voting rights is subject to certain restrictions. See "Share Register and Transfer of Shares" below.

The Articles provide that we may elect not to print and deliver certificates in respect of registered shares. Shareholders may, however, following registration in the share register, request at any time that we issue a written statement in respect of their shares; however, the shareholder has no entitlement to the printing and delivery of share certificates.

<u>Shares and Shareholders</u>

Share Register and Transfer of Shares

UBS Group AG's share register is kept by UBS Shareholder Services, P.O. Box, CH-8098 Zurich, Switzerland. Shareholder Services is responsible for the registration of the global shares. It is split into two parts – a Swiss register, which is maintained by UBS Group, acting as Swiss share registrar, and a US register, which is maintained by Computershare Inc., c/o Voluntary Corporate Actions, 250 Royall Street, Suite V, Canton, MA 02021, as US transfer agent ("Computershare").

Swiss law and the Articles of Association of UBS Group AG and UBS AG require UBS to keep a share register in which the names, addresses and nationality (for legal persons, the registered office) of the owners (and beneficial owners) of registered shares are recorded. The main function of the share register is to record shareholders entitled to vote and participate in general meetings, or to assert or exercise other rights related to voting rights.

The transfer of shares which exist in the form of intermediary-held securities is effected by entries in securities accounts in accordance with applicable law. The transfer of uncertificated securities is effected by way of a written declaration of assignment and requires notice to the issuer.

In order to register shares in the share register, a purchaser must file a share registration form with the share register. Failing such registration, the purchaser may not vote at or participate in shareholders' meetings, but will be entitled to dividends, pre-emptive and priority subscription rights, and liquidation proceeds.

Swiss law distinguishes between registration with and without voting rights. Shareholders must be registered in the share register as shareholders with voting rights in order to vote and participate in general meetings or to assert or exercise other rights related to voting rights. A purchaser of shares will be recorded in our share register with voting rights upon disclosure of its name and nationality (and for legal persons, the registered office). However, we may decline a registration with voting rights if the shareholder does not declare that it has acquired the shares in its own name and for its own account. If the shareholder refuses to make such declaration, it will be registered as a shareholder without voting rights.

There is no limitation under Swiss law or our Articles on the right of non-Swiss residents or nationals to own or vote our shares.

General Meeting

Under Swiss law, annual ordinary shareholders' meetings must be held within six months after the end of our financial year, which is 31 December. Shareholders' meetings may be convened by the Board of Directors (BoD) or, if necessary, by the statutory auditors, with twenty-days' advance notice. The BoD is further required to convene an extraordinary shareholders' meeting if so resolved by a shareholders' meeting or if so requested by shareholders holding in aggregate at least 10% of our nominal share capital. Shareholders representing shares with an aggregate par value of at least CHF 62,500 have the right to request that a specific proposal be put on the agenda and voted upon at the next shareholders' meeting. A shareholders' meeting is convened by publishing a notice in the Swiss Official Commercial Gazette (*Schweizerisches Handelsamtsblatt*) at least 20 days prior to such meeting.

The Articles do not require a minimum number of shareholders to be present in order to hold a shareholders' meeting.

Unless otherwise provided by law or the Articles (as indicated in this section), resolutions require the approval of an "absolute majority" of the votes cast at a shareholders' meeting. Shareholders' resolutions requiring a vote by absolute majority include:

- Amendments to the Articles (except for the changes requiring a higher quorum as indicated below);
- Elections of directors, Chairman of the BoD, members of the compensation committee and statutory auditors;
- Election of the independent proxy;
- Approval of the management report and the consolidated financial statements;
- Approval of the annual financial statements and the resolution on the use of the balance sheet profit (declaration of dividend);
- Approval of the compensation for the BoD and the Group Executive Board (GEB) of UBS Group AG, including the approval of the maximum aggregate amount of compensation of the members of the BoD for the period until the next Annual General Meeting (AGM), the maximum aggregate amount of fixed compensation of the GEB members for the following financial year and the aggregate amount of variable compensation of the GEB members for the preceding financial year, with the exception of a supplementary amount of up to 40% of the average of total annual compensation paid or granted to the GEB during the previous three years for persons joining or promoted within the GEB;
- Decisions to discharge directors and management from liability for matters disclosed to the shareholders' meeting; and
- Passing resolutions on matters which are by law or by the Articles reserved to the shareholders' meeting (e.g., the ordering of an independent investigation into the specific matters proposed to the shareholders' meeting).

Under Swiss corporate law, a resolution passed by at least two thirds of votes represented and an absolute majority of the par value of the shares represented is required in order to approve:

- A change in our stated purpose in the Articles;
- The creation of shares with preferential voting rights;
- A restriction on transferability or registration of shares;
- An increase in authorized or contingent capital or the creation of reserve capital in accordance with Swiss banking law;
- An increase in share capital funded by equity capital, against contribution in kind or to fund acquisitions in kind and the granting of special privileges;
- Changes to pre-emptive rights;
- A change of domicile of the corporation; or
- Dissolution of the corporation.

Under the Articles, a resolution passed at a shareholders' meeting with a supermajority of at least two thirds of the votes represented at such meeting is required to:

- Change the limits on BoD size in the Articles;
- Remove one-fourth or more of the members of the BoD; or
- Delete or modify these supermajority requirements.

At shareholders' meetings, a shareholder can be represented by his or her legal representative or under a written power of attorney by another shareholder eligible to vote or, under a written or electronic power of attorney, by the independent proxy. Votes are taken electronically, by written ballot or by a show of hands. Shareholders representing at least 3% of the votes represented may always request that a vote or election take place electronically or by a written ballot.

UBS AG follows the abovementioned statutory quorum rules in lieu of the quorum requirement of Rule 14.10(f)(3) of Bats BZX Exchange, Inc.

Net Profits and Dividends

Swiss law requires that at least 5% of the annual net profits of a corporation must be retained as general reserves until this equals 20% of the corporation's paid-up share capital. Any net profits remaining are at the disposal of the shareholders' meeting, except that, if an annual dividend exceeds 5% of the nominal share capital, then 10% of such excess must be retained as general reserves, unless such corporation qualifies as a holding company.

Under Swiss law, dividends may be paid out only if the corporation has sufficient distributable profits from previous business years or if the reserves of the corporation are sufficient to allow distribution of a dividend. In either event, dividends may be paid out only after approval by the shareholders' meeting. The BoD may propose to the shareholders that a dividend be paid out. The auditors must confirm that the dividend proposal of the BoD conforms with statutory law.

Dividends are usually due and payable after the shareholders' resolution relating to the allocation of profits has been passed. Under Swiss law, the statute of limitations in respect of dividend payments is five years.

US holders of shares will receive dividend payments in US dollars, unless they provide notice to our US transfer agent, Computershare, that they wish to receive dividend payments in Swiss francs. The US transfer agent will be responsible for paying the US dollars or Swiss francs to registered holders, and for withholding any required amounts for taxes or other governmental charges. If the US transfer agent determines, after consultation with us, that in its judgment any foreign currency received by it cannot be converted into US dollars or transferred to US holders, it may distribute the foreign currency received by it, or an appropriate document evidencing the right to receive such currency, or in its discretion hold such foreign currency for the accounts of US holders.

Preemptive Rights

Under Swiss law, any share issue, whether for cash or non-cash consideration or for no consideration, is subject to the prior approval of the shareholders' meeting. Shareholders of a Swiss corporation have certain preemptive rights to subscribe for new issues of shares in proportion to the nominal amount of shares held. The Articles or a resolution adopted at a shareholders' meeting with a supermajority of at least two-thirds of the votes represented and an absolute majority of the nominal value of the shares represented at the meeting may, however, limit or suspend preemptive rights in certain limited circumstances.

Disclosure of Principal Shareholders

Under the applicable provisions of the Swiss Financial Market Infrastructure Act, anyone who directly or indirectly or acting in concert with third parties reaches, exceeds or falls below the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 33 1/3%, 50% or 66 2/3% of the voting rights of a Swiss-listed corporation must notify the corporation and the SIX Swiss Exchange, whether or not the voting rights can be exercised. Following receipt of such notification, the corporation has the obligation to inform the public. The corporation must disclose in the notes to the balance sheet the identity of any shareholders who own in excess of 5% of its shares.

Notices

Notices to shareholders are made by publication in the Swiss Official Gazette of Commerce. The BoD may designate further means of communication for publishing notices to shareholders.

Mandatory Tender Offer

Under the applicable provisions of the Swiss Financial Market Infrastructure Act, anyone who directly or indirectly or acting in concert with third parties acquires more than 33 1/3% of the voting rights of a Swiss-listed company will have to submit a takeover bid to all remaining shareholders. A waiver from the mandatory bid rule may be granted by our supervisory authority. If no waiver is granted, the mandatory takeover bid must be made pursuant to the procedural rules set forth in the Swiss Financial Market Infrastructure Act and implementing ordinances.

Board of Directors

Borrowing Power

Neither Swiss law nor the Articles restrict in any way our power to borrow and raise funds, provided that any such borrowing is entered into on arms'-length terms.

Swiss law requires that the Articles determine the amount of loans that UBS Group AG, as a listed company, may grant to members of its BoD. The Articles restrict UBS Group AG's ability to grant loans to BoD members as follows: First, loans to the independent members of the BoD shall be made in accordance with the customary business and market conditions. Second, loans to the non-independent members of the BoD shall be made in the ordinary course of business on substantially the same terms as those granted to UBS employees. Third, the total amount of such loans shall not exceed CHF 20 million per member.

Conflicts of Interests

Swiss law does not have a general provision on conflicts of interests. However, the Swiss Code of Obligations requires directors and members of senior management to safeguard the interests of the corporation and, as such, imposes a duty of care and a duty of loyalty on directors and officers. This rule is generally understood as disqualifying directors and senior officers from participating in decisions that directly affect them. Directors and officers are personally liable to the corporation for any breach of these provisions. In addition, Swiss law contains a provision under which payments made to a shareholder or a director or any person associated therewith, other than at arm's length, must be repaid to us if the shareholder or director was acting in bad faith.

In addition, our Organization Regulations provide that, subject to exceptional circumstances in which the best interests of UBS dictate that the member of the BoD or senior management with a conflict of interest shall not participate in the discussions and decision-making involving the interest at stake, the member of the BoD or senior management with a conflict of interest shall participate in discussions and a double vote (meaning a vote with and a vote without the conflicted individual) shall take place. A binding decision on the matter requires the same outcome in both votes.

Retirement of Board members

There is no age-limit requirement for retirement of the members of the BoD. The term of office for each Board member is one year, and no Board member may serve for more than 12 consecutive terms of office. In exceptional circumstances the Board can extend this limit.

Executive sessions

UBS AG's Organization Regulations require one-third of the members of the Board of Directors of UBS AG to be independent. While neither Swiss law applicable to UBS AG nor the Organization Regulations require regularly scheduled meetings of UBS AG's independent directors, the Organization Regulations of UBS Group AG require independent members of the Board of Directors of UBS Group AG to meet, without the participation of the Chairman, at least twice a year. All members of UBS Group AG’s Board of Directors are also members of UBS AG’s Board of Directors and the meetings are held as combined meetings of UBS Group AG and UBS AG's Board of Directors so that they have the same frequency and length for the two companies. As a result, the practice currently in place at UBS AG is that the independent members regularly meet in executive-only sessions.

<u>The Company</u>

Repurchase of Shares

Swiss law limits a corporation's ability to hold or repurchase its own shares. We and our subsidiaries may only repurchase shares if we have sufficient free reserves to pay the purchase price and if the aggregate nominal value of the shares does not exceed 10% of our nominal share capital. Furthermore, such own shares must be disclosed as negative items in our shareholders' equity. Such shares held by us or our subsidiaries do not carry any rights to vote at shareholders' meetings.

Sinking fund provisions

There are no provisions in the Swiss law or in the Articles requiring the company to put resources aside for the exclusive purpose of redeeming bonds or repurchasing shares.

Registration and Business Purpose

UBS Group AG was incorporated and registered as a corporation limited by shares (*Aktiengesellschaft*) under the laws of Switzerland. UBS Group AG was entered into the commercial register of Canton Zurich on 10 June 2014 under the registration number CHE-395.345.924 and has its registered domicile in Zurich, Switzerland. The business purpose of UBS Group AG, as set forth in article 2 of its Articles, is the acquisition, holding, management and sale of direct and indirect participations in enterprises of any kind, in particular in the area of banking, financial, advisory, trading and service activities in Switzerland and abroad. UBS Group may establish enterprises of any kind in Switzerland and abroad, hold equity interests in these companies, and conduct their management. UBS Group is authorized to acquire, mortgage and sell real estate and building rights in Switzerland and abroad. UBS Group may provide loans, guarantees and other types of financing and security for group companies and borrow and invest capital on the money and capital markets.

UBS AG was incorporated and registered as a corporation limited by shares (*Aktiengesellschaft*) under the laws of Switzerland. It was entered into the commercial registers of Canton Zurich and Canton Basel-City on 29 June 1998 under the registration number CHE-101.329.561 and has registered domiciles in Zurich and Basel, Switzerland. The business purpose of UBS AG, as set forth in article 2 of its Articles of Association, is the operation of a bank, with a scope of operations extending to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad. UBS AG is a wholly owned subsidiary of UBS Group AG.

Duration and Liquidation

UBS Group AG and UBS AG have unlimited duration.

Under Swiss law, we may be dissolved at any time by a shareholders' resolution which must be passed by a supermajority of at least two-thirds of the votes represented and an absolute majority of the nominal value of the shares represented at the meeting. Dissolution by law or court order is possible, for example, if we become bankrupt.

Under Swiss law, any surplus arising out of a liquidation (after the settlement of all claims of all creditors) is distributed to shareholders in proportion to the paid-up nominal value of shares held.

Other

Ernst & Young Ltd, Aeschengraben 9, CH-4051 Basel, Switzerland, have been appointed as statutory auditors and as auditors of the consolidated accounts of both UBS Group AG and UBS AG. The auditors are subject to election by the shareholders at the ordinary general meeting on an annual basis.

E—Taxation.

This section outlines the material Swiss tax and US federal income tax consequences of the ownership of UBS Group AG's ordinary shares (defined as "UBS ordinary shares " in this section) by a US holder (as defined below) who holds UBS ordinary shares as capital assets. This discussion addresses only US federal income taxation and Swiss income and capital taxation and does not discuss all of the tax consequences that may be relevant to holders in light of their individual circumstances, including other foreign tax consequences, state or local tax consequences, estate and gift tax consequences, and tax consequences arising under the Medicare contribution tax on net investment income or the alternative minimum tax. It is designed to explain the major interactions between Swiss and US taxation for US persons who hold UBS ordinary shares.

The discussion does not address the tax consequences to persons who hold UBS ordinary shares in particular circumstances, such as tax-exempt entities, banks, financial institutions, life insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for securities holdings, holders that actually or constructively own 10% or more of the total combined voting power of the voting stock of UBS Group AG or of the total value of stock of UBS Group AG, holders that hold UBS ordinary shares as part of a straddle or a hedging or conversion transaction, holders that purchase or sell UBS ordinary shares as part of a wash sale for tax purposes or holders whose functional currency for US tax purposes is not the US dollar. This discussion also does not apply to holders who acquired their UBS ordinary shares through a tax-qualified retirement plan, nor generally to unvested UBS ordinary shares held under deferred compensation arrangements.

If a partnership (or other entity treated as a partnership) holds UBS ordinary shares, the US federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the UBS ordinary shares should consult its tax advisor with regard to the US federal income tax treatment of an investment in the ordinary shares.

The discussion is based on the tax laws of Switzerland and the United States, including the US Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, as in effect on the date of this document, as well as the Convention between the United States of America and the Swiss Confederation for the Avoidance of Double Taxation with Respect to Taxes on Income, which we call the “Treaty,” all of which may be subject to change or change in interpretation, possibly with retroactive effect.

For purposes of this discussion, a "US holder" is any beneficial owner of UBS ordinary shares that is for US federal income tax purposes:

- A citizen or resident of the United States;
- A domestic corporation or other entity taxable as a corporation;
- An estate, the income of which is subject to US federal income tax without regard to its source; or
- A trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust.

Holders of UBS ordinary shares are urged to consult their tax advisors regarding the US federal, state and local and the Swiss and other tax consequences of owning and disposing of these shares in their particular circumstances.

(a) Ownership of UBS Ordinary Shares - Swiss Taxation

Dividends and Distributions

Dividends paid by UBS Group AG to a holder of UBS ordinary shares (including dividends on liquidation proceeds and stock dividends) are in principle subject to a Swiss federal withholding tax at a rate of 35%.

Under the Capital Contribution Principle, the repayment of capital contributions, including share premiums made by the shareholders after December 31, 1996 is in principle no longer subject to Swiss withholding tax if certain requirements regarding the booking of these capital contributions are met.

A US holder that qualifies for Treaty benefits may apply for a refund of the withholding tax withheld in excess of the 15% Treaty rate (or for a full refund in case of qualifying retirement arrangements). The claim for refund must be filed with the Swiss Federal Tax Administration, Eigerstrasse 65, CH-3003 Berne, Switzerland no later than December 31 of the third year following the end of the calendar year in which the income subject to withholding was due. The form used for obtaining a refund is Swiss Tax Form 82 (82 C for companies; 82 E for other entities; 82 I for individuals; 82 R for regulated investment companies), which may be obtained from the Swiss Federal Tax Administration at the address above or downloaded from the web page of the Swiss Federal tax Administration. The form must be filled out in triplicate with each copy duly completed and signed before a notary public in the United States. The form must be accompanied by evidence of the deduction of withholding tax withheld at the source.

Transfers of UBS Ordinary Shares

The purchase or sale of UBS ordinary shares, whether by Swiss resident or non-resident holders (including US holders), may be subject to a Swiss securities transfer stamp duty of up to 0.15% calculated on the purchase price or sale proceeds if it occurs through or with a bank or other securities dealer as defined in the Swiss Federal Stamp Tax Act in Switzerland or the Principality of Liechtenstein. In addition to the stamp duty, the sale of UBS ordinary shares by or through a member of a recognized stock exchange may be subject to a stock exchange levy.

Capital gains realized by a US holder upon the sale of UBS ordinary shares are not subject to Swiss income or gains taxes, unless such US holder holds such shares as business assets of a Swiss business operation qualifying as a permanent establishment for the purposes of the Treaty. In the latter case, gains are taxed at ordinary Swiss individual or corporate income tax rates, as the case may be, and losses are deductible for purposes of Swiss income taxes.

(b) Ownership of UBS Ordinary Shares - US Federal Income Taxation

The tax treatment of the UBS ordinary shares will depend in part on whether or not UBS Group AG is classified as a passive foreign investment company, or PFIC, for US federal income tax purposes. Except as discussed below under "—Passive Foreign Investment Company (PFIC) Rules", this discussion assumes that UBS Group AG is not classified as a PFIC for United States federal income tax purposes.

Dividends and Distributions

A US holder will include in gross income and treat as a dividend the gross amount of any distribution paid, before reduction for Swiss withholding taxes, by UBS Group AG out of its current or accumulated earnings and profits (as determined for US federal income tax purposes), other than certain pro-rata distributions of UBS ordinary shares, when the distribution is actually or constructively received by the US holder. Distributions in excess of current and accumulated earnings and profits (as determined for US federal income tax purposes) will be treated as a return of capital to the extent of the US holder's basis in its UBS ordinary shares and thereafter as capital gain. However, UBS Group AG does not expect to calculate earnings and profits in accordance with US federal income tax principles. Accordingly, a US holder should expect to generally treat distributions we make on UBS ordinary shares as dividends.

Dividends paid to a noncorporate US holder that constitute qualified dividend income will be taxable to the holder at preferential rates, provided that the holder has a holding period in the shares of more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meets other holding period requirements. Dividends paid by UBS Group AG with respect to the ordinary shares will generally be qualified as dividend income provided that, in the year that the US holder receives the dividend, the UBS ordinary shares are readily tradable on an established securities market in the United States. The UBS ordinary shares are listed on the New York Stock Exchange, and UBS Group AG therefore expects that dividends will be qualified dividend income.

For US federal income tax purposes, a dividend will include a distribution characterized under Swiss law as a repayment of capital contributions if the distribution is made out of current or accumulated earnings and profits, as described above.

Dividends will generally be income from sources outside the United States for foreign tax credit limitation purposes, and will generally be "passive" income for purposes of computing the foreign tax credit allowable to the holder. However, if (a) we are 50% or more owned, by vote or value, by US persons and (b) at least 10% of our earnings and profits are attributable to sources within the US, then for foreign tax credit purposes, a portion of our dividends would be treated as derived from sources within the US. With respect to any dividend paid for any taxable year, the US source ratio of our dividends for foreign tax credit purposes would be equal to the portion of our earnings and profits from sources within the United States for such taxable year, divided by the total amount of our earnings and profits for such taxable year. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to preferential rates. The dividend will not be eligible for the dividends-received deduction generally allowed to US corporations in respect of dividends received from other US corporations.

The amount of the dividend distribution included in income of a US holder will be the US dollar value of the Swiss franc payments made, determined at the spot Swiss franc/US dollar rate on the date such dividend distribution is includible in the income of the US holder, regardless of whether the payment is in fact converted into US dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in income to the date such dividend payment is converted into US dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. Such gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Subject to US foreign tax credit limitations, the nonrefundable Swiss tax withheld and paid over to Switzerland will be creditable or deductible against the US holder's US federal income tax liability. To the extent a reduction or refund of the tax withheld is available to a US holder under the laws of Switzerland or under the Treaty, the amount of tax withheld that is refundable will not be eligible for credit against the US holder's US federal income tax liability, whether or not the refund is actually obtained. See "(a) Ownership of UBS Ordinary Shares – Swiss Taxation" above, for the procedures for obtaining a tax refund.

Transfers of UBS Ordinary Shares

A US holder that sells or otherwise disposes of UBS ordinary shares generally will recognize capital gain or loss for US federal income tax purposes equal to the difference between the US dollar value of the amount realized and its tax basis, determined in US dollars, in such UBS ordinary shares. Capital gain of a non-corporate US holder is generally taxed at preferential rates if the UBS ordinary shares were held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. A US holder will not be allowed a foreign tax credit in respect of any stamp duty or stock exchange levy that is imposed upon a transfer of UBS ordinary shares.

Passive Foreign Investment Company (PFIC) Rules

UBS Group AG believes that UBS ordinary shares should not currently be treated as stock of a PFIC for US federal income tax purposes, and does not expect to become a PFIC in the foreseeable future. However, this conclusion is a factual determination made annually and thus may be subject to change. It is therefore possible that UBS Group AG could become a PFIC in a future taxable year. In general, UBS Group AG will be a PFIC with respect to a US holder if, for any taxable year in which the US holder held UBS ordinary shares, either (i) at least 75% of the gross income of UBS Group AG for the taxable year is passive income or (ii) at least 50% of the value, determined on the basis of a quarterly average, of UBS's assets is attributable to assets that produce or are held for the production of passive income (including cash). If UBS Group AG were to be treated as a PFIC, gain realized on the sale or other disposition of UBS ordinary shares would in general not be treated as capital gain. Instead, unless a US holder elects to be taxed annually on a mark-to-market basis with respect to its UBS ordinary shares, such gain and certain "excess distributions" would be treated as having been realized ratably over the holder's holding period for the shares and generally would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, a holder's UBS ordinary shares will be treated as stock in a PFIC if UBS Group AG was a PFIC at any time during the holder's holding period in the UBS ordinary shares. In addition, dividends received from UBS Group AG would not be eligible for the preferential tax rate applicable to qualified dividend income if UBS Group AG were to be treated as a PFIC either in the taxable year of the distribution or the preceding taxable year, but would instead be taxable at rates applicable to ordinary income.

Item 19. Exhibits.

Exhibit number	Description
1.1	Articles of Association of UBS Group AG dated 5 March 2018.
1.2	Articles of Association of UBS AG dated 26 April 2018.
1.3	Organization Regulations of UBS Group AG dated 1 March 2018. (Incorporated by reference to Exhibit 1.3 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2017)
1.4	Organization Regulations of UBS AG dated 1 March 2018. (Incorporated by reference to Exhibit 1.4 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2017)
2(b)	Instruments defining the rights of the holders of long-term debt issued by UBS Group AG and its subsidiaries. We agree to furnish to the SEC upon request, copies of the instruments, including indentures, defining the rights of the holders of our long-term debt and of our subsidiaries' long-term debt.
4.1	Fiscal agency agreement dated 17 August 2012 between UBS AG, acting through its Stamford Branch, and U.S. Bank N.A. (Incorporated by reference to Exhibit 4.2 to UBS AG's Annual Report on Form 20-F for the fiscal year ended December 31, 2012)
4.2	Terms and Conditions of Tier 2 Subordinated Notes of UBS AG due 2023, issued 22 May 2013. (Incorporated by reference to Exhibit 4.2 to UBS AG's Annual Report on Form 20-F for the fiscal year ended December 31, 2013)
4.3	Terms and Conditions of Tier 2 capital instruments issued pursuant to the Deferred Contingent Capital Plan 2013/14. (Incorporated by reference to Exhibit 4.3 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2017)
4.4	Terms and Conditions of Tier 2 Subordinated Notes of UBS AG due 12 February 2026, issued 13 February 2014. (Incorporated by reference to Exhibit 4.3 to UBS AG's Annual Report on Form 20-F for the fiscal year ended December 31, 2013)
4.5	Terms and Conditions of Tier 2 Subordinated Notes of UBS AG due 2024, issued 15 May 2014. (Incorporated by reference to Exhibit 4.3 to UBS AG's Annual Report on Form 20-F for the fiscal year ended December 31, 2014)
4.6	Terms and Conditions of USD 1.25 billion 7% Tier 1 Subordinated Notes issued by UBS Group AG on 19 February 2015. (Incorporated by reference to Exhibit 4.4 to UBS AG's Annual Report on Form 20-F for the fiscal year ended December 31, 2014)
4.7	Terms and Conditions of USD 1.25 billion 7.125% Tier 1 Subordinated Notes issued by UBS Group AG on 19 February 2015. (Incorporated by reference to Exhibit 4.5 to UBS AG's Annual Report on Form 20-F for the fiscal year ended December 31, 2014)
4.8	Terms and Conditions of EUR 1 billion 5.75% Tier 1 Subordinated Notes issued by UBS Group AG on 19 February 2015. (Incorporated by reference to Exhibit 4.6 to UBS AG's Annual Report on Form 20-F for the fiscal year ended December 31, 2014)
4.9	Terms and Conditions of additional Tier 1 capital instruments issued pursuant to the Deferred Contingent Capital Plan 2014/15. (Incorporated by reference to Exhibit 4.9 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2017)
4.10	Terms and Conditions of USD 1.575 billion Tier 1 Subordinated Notes issued by UBS Group AG on 7 August 2015. (Incorporated by reference to Exhibit 4.8 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2015)
4.11	Terms and Conditions of additional Tier 1 capital instruments issued pursuant to the Deferred Contingent Capital Plan 2015/16. (Incorporated by reference to Exhibit 4.11 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2017)

4.12 Terms and Conditions of USD 1.5 billion 6.875% Tier 1 Subordinated Notes issued by UBS Group AG on 21 March 2016. (Incorporated by reference to Exhibit 4.10 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2016)

4.13	Terms and Conditions of USD 1.1 billion 7.125% Tier 1 Subordinated Notes issued by UBS Group AG on 10 August 2016. (Incorporated by reference to Exhibit 4.11 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2016)
4.14	Terms and Conditions of additional Tier 1 capital instruments issued pursuant to the Deferred Contingent Capital Plan 2016/17. (Incorporated by reference to Exhibit 4.14 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2017)
4.15	Terms and Conditions of additional Tier 1 capital instruments issued pursuant to the Deferred Contingent Capital Plan 2017/18. (Incorporated by reference to Exhibit 4.15 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2017)
4.16	Terms and Conditions of USD 2 billion 5.0% Tier 1 Subordinated Notes issued on 31 January 2018 by UBS Group Funding (Switzerland) AG and guaranteed by UBS Group AG. (Incorporated by reference to Exhibit 4.16 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2017)
4.17	Terms and Conditions of SGD 700 million 5.875% Tier 1 Subordinated Notes issued on 28 November 2018 by UBS Group Funding (Switzerland) AG and guaranteed by UBS Group AG.
4.18	Terms and Conditions of USD 2.5 billion 7.00% Tier 1 Subordinated Notes issued on 31 January 2019 by UBS Group Funding (Switzerland) AG and guaranteed by UBS Group AG.
4.19	Terms and Conditions of additional Tier 1 capital instruments issued pursuant to the Deferred Contingent Capital Plan 2018/19.
4.20	Commodity Futures Trading Commission Order Instituting Proceedings Pursuant to Section 6(c)(4)(A) and 6(d) of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions, dated November 11, 2014. (Incorporated by reference to Exhibit 4.10 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2015)
4.21	Financial Conduct Authority Final Notice issued 11 November 2014. (Incorporated by reference to Exhibit 4.11 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2015)
4.22	Swiss Financial Market Supervisory Authority Report on Foreign Exchange Trading at UBS AG dated 12 November 2014. (Incorporated by reference to Exhibit 4.12 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2015)
4.23	Plea Agreement between the Criminal Division of the US Department of Justice and UBS AG dated May 20, 2015. (Incorporated by reference to Exhibit 4.13 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2015)
4.24	Board of Governors of the Federal Reserve System and State of Connecticut Department of Banking Order to Cease and Desist and Order of Assessment of a Civil Money Penalty Issued Upon Consent Pursuant to the Federal Deposit Insurance Act, as Amended, dated May 20, 2015. (Incorporated by reference to Exhibit 4.14 to UBS's Annual Report on Form 20-F for the fiscal year ended December 31, 2015)
4.25	Asset Transfer Agreement between UBS AG and UBS Switzerland AG dated 12 June 2015. (Incorporated by reference to Form 6-K of UBS AG filed on June 17, 2015)
8	Significant Subsidiaries of UBS Group AG. Please see Note 31 to each set of Financial Statements (*Interests in subsidiaries and other entities),* on pages 482-489 and 677-684 of the Annual Report.
12	The certifications required by Rule 13(a)-14(a) (17 CFR 240.13a-14(a))
13	The certifications required by Rule 13(a)-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350).
15.1	Consent of Ernst & Young Ltd. with respect to UBS Group AG
15.2	Consent of Ernst & Young Ltd. with respect to UBS AG
101	Interactive Data Files (sections of the Annual Report formatted in XBRL (Extensible Business Reporting Language)). Furnished electronically herewith.

SIGNATURES

The registrants hereby certify that they meet all of the requirements for filing on Form 20-F and that they have duly caused the undersigned to sign this annual report on their behalf.

UBS Group AG

/s/ Sergio Ermotti

Name: Sergio Ermotti

Title: Group Chief Executive Officer

/s/ Kirt Gardner

Name: Kirt Gardner

Title: Group Chief Financial Officer

/s/ Todd Tuckner

Name: Todd Tuckner

Title: Group Controller and Chief Accounting

Officer

UBS AG

_/s/ Sergio Ermotti__________________

Name: Sergio Ermotti

Title: President of the Executive Board

_/s/ Kirt Gardner_____________________

Name: Kirt Gardner

Title: Chief Financial Officer

_/s/ Todd Tuckner____________________

Name: Todd Tuckner

Title: Group Controller and Chief Accounting
Officer

Date: March 15, 2019

UBS Group AG and UBS AG

Annual Report 2018

Our external reporting approach

Our external reporting requirements and the scope of our external reports are defined by accounting standards, relevant stock and debt listing rules, SEC (US Securities and Exchange Commission) and other regulatory requirements, as well as by our financial reporting policies.

We prepare and publish consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) on a half-yearly basis, in line with the requirements of the SIX Swiss Exchange and the New York Stock Exchange, where our shares are listed. We also publish our results on a quarterly basis in order to provide shareholders with more frequent disclosures than required by law. Statutory financial statements for UBS Group AG are prepared annually as the basis for our Swiss tax return, the appropriation of retained earnings and a potential distribution of dividends, subject to shareholder approval at the Annual General Meeting. Management’s discussion and analysis complements our IFRS financial statements.

The Annual Report 2018 – UBS Group AG and UBS AG is the basis for our SEC Form 20-F filing, which includes Extensible Business Reporting Language (XBRL) interactive financial data, as required for non-US private issuers that prepare financial statements in accordance with IFRS.

Our approach to long-term value creation

Contents

Appendix

Annual Report 2018
Letter to shareholders

Dear shareholders,

Axel A. Weber Chairman of the Board of Directors

Sergio P. Ermotti Group Chief Executive Officer

Building on your positive feedback from last year, our shareholder letter this year again answers a series of questions that we are regularly asked by different stakeholders of the bank.

What was the market context in 2018?

The year started off positively, but nervousness set in by the end of the first half. Markets started fearing a downturn well ahead of any real economy indicators. Our private clients became less active, and from the fourth quarter onward, markets sold off as well. The most striking example to illustrate what developed over the course of 2018 is the fact that about 90% of asset classes were down on a year-over-year basis. That’s quite extraordinary. And when you look at what happened in December 2018, it was one of the worst months since the Great Depression in terms of market performance. The coexistence of macroeconomic and geopolitical issues caused even more concerns with investors. For example, according to our fourth quarter client survey, cash balances with our US wealth management clients reached a record-high level of 24%.

How do you assess the financial performance of the Group in 2018?

We had a very successful 2018, despite the market conditions just described. Against this backdrop, we increased net profit[1] by USD 0.6 billion or 16% to USD 4.5 billion, and achieved a strong adjusted return on tangible equity excluding deferred tax expense / benefit and DTAs[2] of 12.9%. Reported return on CET1 capital was 13.1%, markedly above most of our European peers and in line with American banks. We also generated USD 4.0 billion of additional capital in 2018 and our total loss-absorbing capacity increased to USD 84 billion.

How did 2018 reflect your capital returns policy?

Consistent with our capital returns policy, we accrued for a higher dividend and exceeded our share buyback goal of CHF 550 million by CHF 200 million. The Board of Directors intends to propose an 8% increase in our dividend to CHF 0.70 per share for the financial year 2018. Combined with the share buyback of CHF 750 million last year, our total payout ratio[3] for 2018 will be 76%. To sum up, we continue to deliver attractive shareholder returns, while maintaining a strong capital position and investing for further growth.

Why has the UBS share price lost so much ground despite these achievements?

In our view, the current share price doesn’t reflect the long-run value of our franchise. The entire banking sector saw significant share price corrections in 2018. One needs to look at both absolute and relative performance. Investors’ profitability expectations for the industry reflect the fear of a global economic slowdown, more challenging market conditions or a combination of both. Nevertheless, we are among the highest-valued banks in Europe and compare well to a number of US peers. In terms of total shareholder return, we also outperformed our main European peers. Our focus is on sustainable performance, which is at the core of our strategy and should drive valuation growth over the cycle.

Why do you believe UBS still has the right strategy – how does it set you apart from others?

Secular trends such as global wealth creation, including the increased need for pension products, and the opening up of China’s financial markets will continue to drive the unique value of our franchise. We are the preeminent global wealth manager to high net worth and ultra high net worth clients as well as the number one Swiss bank, enhanced by an investment bank that is strong in the areas where we choose to compete, and a successful asset manager. The strength of our business model and our strategic focus have generated more than USD 19 billion in net profits over the last five years. More than half of our profits come from asset-gathering businesses, and our Swiss business further contributes to the stability of our earnings. We are diversified geographically, and well positioned in the world’s largest and fastest growing markets. Of course we review and recalibrate our strategy each year, as we constantly evolve in response to new challenges, but we have strategic clarity and consistency.

2

Are you satisfied with your combined wealth management division's performance – where can you improve?

We've made good progress in exploiting the combined scale and capabilities of the businesses. Global Wealth Management achieved a decade-high pre-tax profit of USD 3.6 billion in 2018. Working as an integrated business creates new opportunities for revenue growth and improves our ability to execute existing opportunities, which we expect to enable us to achieve our 10−15% profit growth target. We also expect to generate cost synergies of USD 600 million over the next three years that will help fund our investments for growth and efficiency. We intend to make strategic investments totaling more than USD 1 billion through 2021 to further improve client and advisor experience. We remain confident in our growth plans even though net new money was not what we wanted it to be in 2018. Therefore, we will be intensifying our efforts to attract and retain a higher proportion of our current and prospective clients' assets.

Your adjusted cost / income ratio is currently 79.5%. How do you intend to reach your 2021 ambition of around 72%?

First, when measuring efficiency, it's important to include risk-adjusted capital returns and not look at the cost / income ratio in isolation. Our goal is to balance revenue growth with both cost and capital efficiency. We delivered 3% positive operating leverage in 2018, as we increased revenues while reducing expenses. Our aim is to keep costs, excluding performance-based compensation, broadly flat over the next three years. And we have a range of tactical measures to address market headwinds. For example, while we cannot and do not want to halt our investments, we can adjust the pace and relative priority. And we will be focusing our hiring plans on the most important strategic growth areas.

Where and how do you expect to grow going forward?

We believe we can grow our revenues at more than the rate of global economic expansion over the cycle. From a geographic standpoint, the greatest growth is expected to come from gaining market share in the US and Asia Pacific. In the US, we have a sizeable opportunity with ultra high net worth clients. And we want to build our share of wallet with US persons outside the US. Also, further globalizing our Global Family Office capabilities is another part of our growth initiatives. In China, we became the first foreign bank to increase its stake to a majority of 51% in a securities joint venture, giving us a great foothold for future expansion. And in Switzerland, net new business volume growth in Personal & Corporate Banking was double GDP growth last year. Our aim is to further solidify this leadership position by, for example, expanding our digital lead. These are just some of the opportunities we are focused on, there are plenty of others, many of which are discussed in the pages of our annual report.

You want to be the bank for US, Asian and European entrepreneurs and corporates for their local and global needs – why should they choose UBS?

Because we are a truly global bank. Our clients globally require advice and solutions for both their own wealth and their businesses. They expect us to deliver the whole of UBS to them, with global wealth management and investment bank capabilities under one roof, from M&A all the way to succession planning, as well as the best teams when it comes to research and execution. We have the breadth and the expertise to bridge between both their corporate and their personal financial needs. This makes UBS an obvious choice, given our leading position in those fields that matter most to our clients.

Sustainability is a key part of your strategy, how is that reflected in your client offering?

We provide a broad range of products and solutions to both private and institutional clients, including sustainable and impact investing opportunities. For example, Asset Management followed its successful UK Climate Aware rules-based fund with a similar fund available for international investors. The portfolio is oriented toward companies that are better prepared for a low-carbon future while reducing exposure to, rather than excluding, companies with higher carbon risk, in order to pursue strategic engagement with these companies. Also in 2018, Global Wealth Management launched the world’s first fully sustainable investing (SI) cross-asset mandate portfolio for private clients. As of 31 December 2018, clients had invested USD 2.8 billion assets under management in this innovative solution.

What are you doing to prepare UBS for the digital future of banking?

We’re not just preparing for the future, we’re actively shaping it. Technology is changing the way banks, including UBS, operate. That’s why we are investing more than 10% of revenues, more than USD 3 billion each year, into technology. For example, we’ve accelerated our journey into the cloud space, thereby reducing the number of costly traditional data centers. We also increased the number of robots performing routine tasks from roughly 700 to 1,000 last year. We will more broadly leverage machine learning and artificial intelligence-powered engines to automate more complex tasks and allow for better and faster decision-making, for example in risk management or anti-money laundering. But the big focus is on front-to-back digitalization ultimately driving a better client experience, so technology is about much more than just cost savings.

You put several legacy issues behind you in 2018, but just received an adverse verdict in France. Can you comment on this matter?

We continued to make significant progress last year on legacy litigation, including resolution of two RMBS-related cases. In the two most prominent open matters, the FIRREA litigation and the French cross-border case, UBS has chosen to defend the bank in court with the best interests of shareholders in mind. We are confident in our legal position, and contesting these cases has also allowed us to present our arguments to stakeholders publicly. We strongly disagree with the verdict in France. UBS respected and followed its obligations under Swiss and French law as well as the European Savings Tax Directive. The judgment is not supported by the facts. For example, no evidence was provided that any French client was solicited on French soil by a UBS AG client advisor to open an account in Switzerland. This is acknowledged by the decision itself. Even assuming liability - which we contest - the calculation of the fine and the damages are, in our view, inconsistent and not in line with applicable law. We have appealed the French court’s decision to the Court of Appeal, which will retry the case in its entirety. The Court of Appeal operates under the supervision of the French Supreme Court and is required to address our arguments in its decision. Based on the law and the facts, we believe the verdict should be reversed.

What provisions have you taken for the France case?

Notwithstanding the strength of our legal arguments and the lack of evidence to support the charges, we have increased the provision for this matter to a total of EUR 450 million (USD 516 million). Under the accounting standard, we are required to judge if an outflow is probable and to estimate the extent of such an outflow considering a wide range of outcomes. In light of the first judgment and considering the full range of potential final decisions, the provision on our balance sheet reflects our best estimate of possible financial implications. That said, we still believe the verdict should be reversed, at which time we would release the provision.

Looking back at the Investor Update in October last year, how was the start into 2019?

Given the market developments since last October, our starting point for the year is different than we had planned, making this year’s journey toward our targets steeper. Also, despite some rebound in equity markets, clients so far have remained cautious in the first quarter of 2019. Nevertheless, we will have to see how the rest of the year develops. One of our goals at the 2018 Investor Update was to be transparent about the factors that we can and cannot control. We do not control the external environment, nor equity markets and interest rates. But of course this doesn’t mean we are passively waiting for markets to improve. It’s up to us to continue executing our plans with energy and commitment, with a focus on sustainable, long-term value creation.

What are the biggest opportunities medium to long term?

Over the last ten years, we have reconfigured UBS, while delivering strong results, and we are excited about the potential for the next decade. We had to deal with many challenges and that also taught us a lot, which will allow us to execute even better going forward. To achieve that, we need to take partnership within UBS to the next level. Because we know it leads to better results for clients, which in turn leads to more capital generation and even better returns for shareholders. We expect to generate almost as much capital in the next three years as we did in the previous six. And to tie in with our global growth ambitions mentioned earlier, our global infrastructure has the capacity to accommodate far more assets at marginal cost – so more scale is a significant opportunity. From a client perspective, we've seen that those who have navigated this environment most successfully are those who develop a clear long-term plan to allow for a sustainable legacy. With that in place, clients will be well positioned to seek opportunities amid the short-term noise. That's exactly what we at UBS are doing ourselves.

Thank you for your ongoing support. We look forward to your feedback and also to welcoming you at our AGM on 2 May 2019 in Basel.

Yours sincerely,

Axel A. Weber	Sergio P. Ermotti
Chairman of the	Group Chief Executive Officer
Board of Directors	

1 Net profit attributable to shareholders, excluding the USD 2,939 million net write-down of deferred tax assets (DTAs) following the enactment of the US Tax Cuts and Jobs Act in the fourth quarter of 2017. **2** Adjusted return on tangible equity excluding deferred tax expense

/ benefit and DTAs; calculated as adjusted net profit / loss attributable to shareholders excluding amortization and impairment of goodwill and intangible assets and deferred tax expense / benefit, divided by average tangible equity attributable to shareholders excluding any DTAs that do not qualify as CET1 capital. **3** Calculated as accruals for proposed dividends to shareholders plus the share buyback in 2018 divided by net profit attributable to shareholders.

4

Corporate information

UBS Group AG is incorporated and domiciled in Switzerland and operates under art. 620ff. of the Swiss Code of Obligations as an Aktiengesellschaft, a corporation limited by shares. Its registered office is at Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, phone +41-44-234 11 11, and its corporate identification number is CHE-395.345.924. UBS Group AG was incorporated on 10 June 2014 and was established in 2014 as the holding company of the UBS Group. UBS Group AG shares are listed on the SIX Swiss Exchange and on the New York Stock Exchange (ISIN: CH0244767585; CUSIP: H42097107). UBS Group AG owns 100% of the outstanding shares of UBS AG.

UBS AG is incorporated and domiciled in Switzerland and operates under art. 620ff. of the Swiss Code of Obligations as an Aktiengesellschaft, a corporation limited by shares. The addresses and telephone numbers of the two registered offices of UBS AG are: Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, phone +41-44-234 11 11; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, phone +41-61-288 50 50. The corporate identification number is CHE-101.329.561. UBS AG is a bank. The company was formed on 29 June 1998, when Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872) merged to form UBS AG.

Contacts

Switchboards

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

Zurich +41-44-234 1111
London +44-207-567 8000
New York +1-212-821 3000
Hong Kong +852-2971 8888
Singapore +65-6495 8000

Investor Relations

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

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

www.ubs.com/investors

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

Media Relations

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

www.ubs.com/media

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

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

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

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

Office of the Group Company Secretary

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

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

sh-company-secretary@ubs.com

Hotline +41-44-235 6652

Shareholder Services

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

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

sh-shareholder-services@ubs.com

Hotline +41-44-235 6652

US Transfer Agent

For global registered share-related inquiries in the US.

Computershare Trust Company NA
P.O. Box 505000
Louisville, KY 40233-5000, USA

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

Shareholder website:
www.computershare.com/investor

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

TDD foreign shareholders
+1-201-680-6610

Corporate calendar UBS Group AG

Publication of the first quarter 2019 report: Thursday, 25 April 2019

Annual General Meeting 2019: Thursday, 2 May 2019

Publication of the second quarter 2019 report: Tuesday, 23 July 2019

Publication of the third quarter 2019 report: Tuesday, 22 October 2019

Corporate calendar UBS AG

Publication of the first quarter 2019 report: Tuesday, 30 April 2019

Publication of the second quarter 2019 report: Friday, 26 July 2019

Publication of the third quarter 2019 report: Friday, 25 October 2019

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

Imprint

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

Language: English

Annual Report 2018

Our key figures

	As of or for the year ended		
USD million, except where indicated	**31.12.18**	31.12.17	31.12.16
Group results			
Operating income	**30,213**	29,622	28,729
Operating expenses	**24,222**	24,272	24,519
Operating profit / (loss) before tax	**5,991**	5,351	4,209
Net profit / (loss) attributable to shareholders	**4,516**	969	3,348
Diluted earnings per share (USD)[1]	**1.18**	0.25	0.88
Profitability and growth[2]			
Return on equity (%)[3]	**8.6**	1.8	6.1
Return on tangible equity (%)[4]	**10.0**	2.2	7.1
Adjusted return on tangible equity excluding deferred tax expense / benefit and deferred tax assets (%)[5]	**12.9**	13.7	11.3
Return on common equity tier 1 capital (%)[6]	**13.1**	3.0	10.9
Return on risk-weighted assets, gross (%)[7]	**11.8**	12.6	13.1
Return on leverage ratio denominator, gross (%)[7]	**3.3**	3.3	3.2
Cost / income ratio (%)[8]	**79.9**	81.6	85.2
Adjusted cost / income ratio (%)[9]	**79.5**	78.2	80.8
Net profit growth (%)[10]	**366.0**	(71.1)	(48.3)
Resources			
Total assets	**958,489**	939,279	918,906
Equity attributable to shareholders	**52,928**	52,495	52,916
Common equity tier 1 capital[11]	**34,119**	33,516	30,156
Risk-weighted assets[11]	**263,747**	243,636	218,785
Common equity tier 1 capital ratio (%)[11]	**12.9**	13.8	13.8
Going concern capital ratio (%)[11]	**17.5**	17.6	17.9
Total loss-absorbing capacity ratio (%)[11]	**31.7**	33.0	31.1
Leverage ratio denominator[11]	**904,598**	909,032	855,255
Common equity tier 1 leverage ratio (%)[11]	**3.77**	3.69	3.53
Going concern leverage ratio (%)[11]	**5.1**	4.7	4.6
Total loss-absorbing capacity leverage ratio (%)[11]	**9.3**	8.8	7.9
Liquidity coverage ratio (%)[12]	**136**	143	132
Other			
Invested assets (USD billion)[13]	**3,101**	3,262	2,761
Personnel (full-time equivalents)	**66,888**	61,253	59,387
Market capitalization[14,15]	**45,907**	68,477	58,177
Total book value per share (USD)[14]	**14.35**	14.11	14.25
Total book value per share (CHF)[14,16]	**14.11**	13.75	14.51
Tangible book value per share (USD)[14]	**12.55**	12.34	12.52
Tangible book value per share (CHF)[14,16]	**12.33**	12.03	12.74

1 Refer to “Note 9 Earnings per share (EPS) and shares outstanding” in the “Consolidated financial statements” section of this report for more information. 2 Refer to the “Performance targets and measurement” section of this report for more information on our performance targets. 3 Calculated as net profit attributable to shareholders / average equity attributable to shareholders. 4 Calculated as net profit attributable to shareholders before amortization and impairment of goodwill and intangible assets / average equity attributable to shareholders less average goodwill and intangible assets. 5 Calculated as adjusted net profit attributable to shareholders before amortization and impairment of goodwill and intangible assets and before deferred tax expense or benefit / average equity attributable to shareholders less average goodwill and intangible assets and less average deferred tax assets that do not qualify as common equity tier 1 capital. 6 Calculated as net profit attributable to shareholders before amortization and impairment of goodwill and intangible assets / average common equity tier 1 capital. 7 Calculated as operating income before credit loss expense or recovery / average risk-weighted assets and average leverage ratio denominator, respectively. 8 Calculated as operating expenses / operating income before credit loss expense or recovery. 9 Calculated as adjusted operating expenses / adjusted operating income before credit loss expense or recovery. 10 Calculated as change in net profit attributable to shareholders from continuing operations between current and comparison periods / net profit attributable to shareholders from continuing operations of comparison period. 11 Based on the Swiss systemically relevant bank framework as of 1 January 2020. Refer to the “Capital management” section of this report for more information. 12 Effective 1 January 2017 the reported quarterly average is the average of daily values during the quarter. The 2016 figure is based on the average of the three month-end values. Refer to the “Balance sheet, liquidity and funding management” section of this report for more information. 13 Includes invested assets for Global Wealth Management, Asset Management and Personal & Corporate Banking. 14 Refer to “UBS shares” in the “Capital management” section of this report for more information. 15 The calculation of market capitalization has been amended to reflect total shares outstanding multiplied by the share price at the end of the period. The calculation was previously based on total shares issued multiplied by the share price at the end of the period. Market capitalization has been reduced by USD 2.1 billion as of 31 December 2018, by USD 2.4 billion as of 31 December 2017 and by USD 2.2 billion as of 31 December 2016 as a result. 16 Total book value per share and tangible book value per share in Swiss francs are calculated based on a translation of equity under our US dollar presentation currency. As a consequence of the restatement to a US dollar presentation currency, amounts may differ from those originally published in our quarterly and annual reports.

Events subsequent to the publication of the unaudited fourth quarter 2018 report

The 2018 results and the balance sheet as of 31 December 2018 differ from those presented in the unaudited fourth quarter 2018 report published on 22 January 2019 as a result of events adjusted for after the balance sheet date. Provisions for litigation, regulatory and similar matters increased, which reduced 2018 operating profit before tax and 2018 net profit attributable to shareholders by USD 382 million. As a result, basic earnings per share decreased by USD 0.10 and diluted earnings per share decreased by USD 0.09.

Changes to our functional and presentation currencies

Effective from 1 October 2018, the functional currency of UBS Group AG and UBS AG's Head Office in Switzerland changed from Swiss francs to US dollars and that of UBS AG's London Branch from British pounds to US dollars, in compliance with the requirements of International Accounting Standard (IAS) 21, *The Effects of Changes in Foreign Exchange Rates*. The presentation currency of UBS Group AG's consolidated financial statements has changed from Swiss francs to US dollars to align with the functional currency changes of significant Group entities. Prior periods have been restated for this change in presentation currency. Assets, liabilities and total equity were translated to US dollars at closing exchange rates prevailing on the respective balance sheet dates, and income and expenses were translated at the respective average rates prevailing for the relevant periods.

Performance measures reason for use

Return on equity This measure provides information on the profitability of the business in relation to equity.

Return on tangible equity This measure provides information on the profitability of the business in relation to tangible equity.

Adjusted return on tangible equity excluding deferred tax expense / benefit and deferred tax assets This measure provides information on the profitability of the business in relation to tangible equity, excluding deferred tax expense / benefit and deferred tax assets. We believe that excluding these items better reflects the underlying returns of the businesses, as deferred tax items are generally not included in capital and have volatility that is unrelated to the performance of the business divisions and the Group in that period.

Return on common equity tier 1 capital This measure provides information on the profitability of the business in relation to common equity tier 1 capital.

Return on risk-weighted assets, gross This measure provides information on the revenues of the business in relation to risk-weighted assets.

Return on leverage ratio denominator, gross This measure provides information on the revenues of the business in relation to leverage ratio denominator.

Cost / income ratio This measure provides information on the efficiency of the business by comparing operating expenses with gross income.

Adjusted cost / income ratio This measure provides information on the efficiency of the business by comparing operating expenses with gross income, while excluding items that management believes are not representative of the underlying performance of the businesses.

Net profit growth This measure provides information on profit growth in comparison with the prior period.

Terms used in this report, unless the context requires otherwise

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

Our Board of Directors

8

The Board of Directors (BoD) of UBS Group AG, under the leadership of the Chairman, consists of six to 12 members as per our Articles of Association. The BoD decides on the strategy of the Group upon recommendation of the Group Chief Executive Officer (Group CEO) and is responsible for the overall direction, supervision and control of the Group and its management as well as for supervising compliance with applicable laws, rules and regulations. The BoD exercises oversight over UBS Group AG and its subsidiaries and is responsible for establishing a clear Group governance framework to provide effective steering and supervision of the Group, taking into account the material risks to which UBS Group AG and its subsidiaries are exposed. The BoD has ultimate responsibility for the success of the Group and for delivering sustainable shareholder value within a framework of prudent and effective controls, approves all financial statements for issue and appoints and removes all Group Executive Board (GEB) members.

Our Group Executive Board

UBS Group AG operates under a strict dual board structure, as mandated by Swiss banking law, and therefore the BoD delegates the management of the business to the GEB. Under the leadership of the Group CEO, the GEB has executive management responsibility for the steering of the Group and its business. It assumes overall responsibility for developing the Group and business division strategies and the implementation of approved strategies.

→ **Refer to "Board of Directors" and "Group Executive Board" in the "Corporate governance" section of this report or to** ***www.ubs.com/bod*** **and** ***www.ubs.com/geb*** **for the full biographies of our BoD and GEB members**

10

Our evolution

Since our origins in the mid-19th century, many financial institutions have become part of the history of our firm and have helped to shape its development. 1998 was a major turning point for the firm, when two of the then three largest banks of Switzerland, Union Bank of Switzerland and Swiss Bank Corporation (SBC), merged to form today's UBS. At the time of the merger, both banks were already well established and successful in their own right. Union Bank of Switzerland had grown organically to become the largest Swiss bank. In contrast, SBC had grown mainly through a combination of strategic partnerships and acquisitions, including S.G. Warburg in 1995.

In 2000, we acquired PaineWebber, a US brokerage and asset management firm whose roots went back to 1879, establishing us as a significant player in the US. Over the past half century and more, we have largely organically built a strong presence in the Asia Pacific region, where we are the largest wealth manager (measured by invested assets), a top-tier investment bank and an established player in asset management.

During the financial crisis of 2008, we incurred significant losses. In 2011, we initiated a strategic transformation of our firm toward a business model that focused on our core businesses of wealth management and personal and corporate banking in Switzerland. We sought to revert to our roots, emphasizing a client-centric model that requires less risk-taking and capital, and have successfully completed this transformation.

Three keys

Our Pillars, Principles and Behaviors, launched in 2013, are the foundation for our corporate strategy, identity and culture.

Today, we are a global financial services firm, consisting of the preeminent global wealth manager to high net worth and ultra high net worth clients, the leading personal and corporate banking business in Switzerland, a global asset manager and a focused investment bank.

The chart on the next page provides an overview of our principal legal entities and reflects our legal entity structure.

→ **Refer to** ***www.ubs.com/history*** **for more information**

The legal structure of the UBS Group as of 1 March 2019

Our strategy

Attractive business model

Our strategy is centered on our leading global wealth management business and our premier personal and corporate banking business in Switzerland, complemented by our focused investment bank and global asset manager. We concentrate on capital-efficient businesses in our targeted markets, where we have a strong competitive position and an attractive long-term growth or profitability outlook.

We are the preeminent global wealth manager to high net worth and ultra high net worth clients, based on invested assets. We have a strong presence in the largest market, the United States, and the leading position in the fastest-growing region, Asia Pacific, based on invested assets. Our global wealth management business benefits from its scale, which is difficult to replicate organically, and leading positions across the high net worth and ultra high net worth client segments in an industry with attractive growth prospects. The partnership between our business divisions is critical to the success of our strategy and a source of competitive advantage.

Capital strength is the foundation of our strategy and our business model is capital-accretive and capital-efficient.

Long-term value creation through cost- and capital-efficient growth

We are managing UBS for the long term, focusing on sustainable profit growth and responsible resource deployment. We aim to balance growth opportunities with cost and capital efficiency in order to drive attractive risk-adjusted returns and sustainable performance.

Revenue growth

We believe we can grow our revenues at least at the rate of global economic expansion over the cycle, by executing our plans with discipline and by taking advantage of favorable market and industry trends. Improved collaboration and partnership across our business divisions provide further revenue growth potential and enable us to better meet the needs of our ultra high net worth and Global Family Office clients.

Geographically, we expect the US and Asia Pacific to be the strongest contributors to future profit growth. We are already a strong player in the US and Latin America, with ambitions to grow further by capturing market share and benefiting from secular growth trends. We believe Asia Pacific, particularly China, presents a significant long-term opportunity, given its economic expansion and wealth creation. Our competitive position in the region is strong and we are well positioned to capture the growth opportunities across our businesses. In Switzerland, our home market, we intend to reinforce our leadership position. In Europe, the Middle East and Africa, we want to leverage our existing capabilities to grow our market share during the further consolidation that is expected in the financial services industry.

→ **Refer to "Industry trends" in the "Our environment" section of this report for more information on the expected industry consolidation**

Cost efficiency

We are a cost-conscious organization with objectives to improve our overall cost efficiency. Our aim is to keep costs, excluding performance-based compensation which is linked to revenues, broadly flat over the next three years, while growing our revenues.

We plan to continue to invest in technology to improve efficiency and effectiveness, drive growth and better serve our clients.

In order to further strengthen the business divisions' ownership of Corporate Center costs and align Group and divisional performance, we have adjusted our Corporate Center cost allocation methodology. A higher proportion of these costs will be allocated to the business divisions from the first quarter of 2019.

→ **Refer to the "Significant accounting and financial reporting changes" section of this report for more information on the changes in cost allocations to business divisions**

Capital efficiency

We remain disciplined when deploying capital across our businesses, aiming to cover the cost of capital where capital is allocated.

We are improving transparency and accountability regarding the use of resources, allowing the business divisions to further optimize their capital usage and pursue growth opportunities in a capital-efficient manner. Consequently, we have adapted our equity attribution framework and, from the first quarter of 2019, will further allocate to the business divisions resources that were previously centrally held.

→ **Refer to "Equity attribution and return on attributed equity" in the "Capital management" section of this report for more information on how equity is attributed to our business divisions**

→ **Refer to the "Significant accounting and financial reporting changes" section of this report for more information on the changes in resource allocations to business divisions**

Attractive capital returns

Our capital strength and capital-accretive business model allow us to grow our business while delivering attractive capital returns to our shareholders.

We aim to increase our ordinary dividend per share at a mid-to-high single-digit percentage each year. We also aim to return excess capital, after accruals for ordinary dividends, most likely in the form of share repurchases. We consider our business outlook and capital plan, as well as other developments, in determining excess capital available for share repurchases.

Performance targets and measurement

Targets, ambitions and capital and resource guidelines

In October 2018, we refined our performance target framework, introducing more specific targets and ambitions for the Group and business divisions. Our targets and ambitions are underpinned by our latest three-year strategic plan. Our strategic plan reflects our strategic initiatives, management actions as well as certain economic and market assumptions. The changes take into account the effects of the changes in Corporate Center allocations and our equity attribution methodology, which came into effect on 1 January 2019.

Targets are measured on an annual basis, except our adjusted profit before tax growth targets for Global Wealth Management, Personal & Corporate Banking and Asset Management, and the adjusted return on attributed equity target for the Investment Bank, all of which represent the average annual performance we aim to deliver over the cycle.

The table on the next page shows the performance targets, ambitions, and capital and resource guidelines for the Group and business divisions for the 2019–2021 period. Our targets represent what we expect to achieve in the short term. Our ambitions reflect what we aim to achieve within the next three years.

Both Group and business division performance against targets are taken into account when determining variable compensation.

→ **Refer to "Performance and compensation at a glance" in the "Compensation" section of this report for more information on variable compensation**

Group targets and ambitions

Our Group targets reflect our overarching goal of growing our business while delivering attractive capital returns and maintaining disciplined resource management.

Regulatory capital plays an important role in how we manage our business. It drives our regulatory capital ratios, which are a key input for defining our risk appetite and a primary constraint on our ability to invest or return capital to shareholders. We have therefore adopted return on common equity tier 1 (CET1) capital as a Group target, aiming at around 15% on a reported basis in 2019, with an ambition to improve to around 17% by 2021.

For our cost efficiency target, we believe adjusted financials better reflect our fundamental business performance than reported financials. Our reported and adjusted results have been converging as we have reduced restructuring expenses, and we expect this convergence to continue. We are targeting an adjusted cost / income ratio of around 77% in 2019, with the ambition to improve to around 72% by 2021.

Divisional targets and ambitions

Our divisional targets include measures of profitability, efficiency and growth, tailored to the strategic objectives and market conditions of each business division, and underpin our Group targets.

Targets, ambitions and capital and resource guidelines 2019–2021

			Targets		Ambitions	Capital / resource guidelines
			FY19	FY19–21		FY19–21
Group	1	Reported return on CET1 capital	~15%		~17%	
	2	Adjusted cost / income ratio[1]	~77%		~72%	
	3	CET1 capital ratio				~13%
	4	CET1 leverage ratio				~3.7%
Global Wealth Management	5	Adjusted pre-tax profit growth[1]		10–15%[2]		
	2	Adjusted cost / income ratio[1]	~75%		~70%	
	6	Net new money growth		2–4%		
Personal & Corporate Banking	5	Adjusted pre-tax profit growth[1]		3–5%[2]		
	2	Adjusted cost / income ratio[1]	~59%		~56%	
	7	Net interest margin		145–155 bps		
Asset Management	5	Adjusted pre-tax profit growth[1]		~10%[2]		
	2	Adjusted cost / income ratio[1]	~72%		~68%	
	6	Net new money growth (excl. money markets)		3–5%		
Investment Bank	8	Adjusted return on attributed equity[1]		~15%[2,3]		
	2	Adjusted cost / income ratio[1]	~78%		~75%	
	9	RWA and LRD in relation to Group				~1/3

1 Refer to the "Group performance" section of this report for information on adjusting items.
2 Over the cycle. 3 Repositioned from a minimum return to a performance target.

Definitions

1 **Reported return on CET1 capital** Net profit attributable to shareholders divided by average CET1 capital.

2 **Adjusted cost / income ratio** Adjusted operating expenses divided by adjusted operating income before credit loss (expense) / recovery.

3 **CET1 capital ratio** CET1 capital divided by risk-weighted assets as of period end.

4 **CET1 leverage ratio** CET1 capital divided by leverage ratio denominator as of period end.

5 **Adjusted pre-tax profit growth** Change in business division adjusted profit before tax between current and comparison periods divided by business division adjusted profit before tax in the comparison period. For Asset Management, this metric excludes the effect of business exits. For Personal & Corporate Banking, it is measured in Swiss francs.

6 **Net new money growth** Net new money for the period (annualized as applicable) divided by invested assets at the beginning of the period.

7 **Net interest margin** Net interest income (annualized as applicable) divided by average loans.

8 **Adjusted return on attributed equity (RoAE)** Business division adjusted operating profit before tax (annualized as applicable) divided by average attributed equity.

9 **RWA and LRD in relation to Group** Risk-weighted assets (RWA) or leverage ratio denominator (LRD) attributed to the Investment Bank divided by total Group RWA or LRD, as applicable.

Our businesses

Working in partnership

We operate through four business divisions – Global Wealth Management, Personal & Corporate Banking, Asset Management and the Investment Bank – as well as our Corporate Center.

We see partnership as key to our growth, both within and between business divisions. We are at our best when we combine our strengths to provide our clients with more comprehensive and better solutions.

Our global reach and the breadth of our expertise are major assets that set us apart from our competitors. Combining our strengths makes us a better firm. Initiatives such as the *Group Franchise Awards* encourage employees to look for ways to build bridges between areas and offer the whole firm to our clients.

How we deliver the whole firm to our clients – examples

Global Wealth Management

We are the preeminent global wealth manager to high net worth and ultra high net worth clients, with USD 2.3 trillion in invested assets. Our goal is to provide tailored investment advice and solutions to private clients, in particular in the ultra high net worth and high net worth segments.

At the start of 2018, Wealth Management and Wealth Management Americas were combined into a single unit designed to better deliver our services to clients, realize meaningful improvements in efficiency and accelerate growth for our shareholders. We combined the central functions of Chief Investment Office (CIO), Investment Platforms and Solutions (IPS), Client Strategy Office (CSO) and Chief Operating Office (COO), which enables us to operate these central functions efficiently and effectively support the regional business units, which remain close to our clients with decentralized service delivery. The unification of the ultra high net worth business unit enables us to leverage best practices in serving the wealthiest individuals globally and supporting our growth ambitions by working closer together. We have established a referral and collaboration framework that fosters cross-regional teamwork.

Our focus

We serve high net worth and ultra high net worth individuals, families and family offices around the world and affluent clients in selected markets. Our business is focused on the high net worth and ultra high net worth segments, including family offices. Our unified Global Wealth Management division helps us to better serve clients with global needs. We are already a market leader in the ultra high net worth segment outside the US.[1] We believe that Global Wealth Management can become the firm of choice for the wealthiest clients both in and outside the US. We expect that increasing our market share with ultra high net worth clients in the US could generate approximately USD 70 billion of cumulative net new money from 2019 to 2021.

We expect that our business growth will occur primarily in the US, in part from the initiatives described above, and in Asia Pacific, where we are already the largest wealth manager based on invested assets.

We are focusing on increasing mandate and lending penetration with innovative solutions for our clients as well as enhancing the advisors' productivity in these regions by making operational processes more efficient. Additionally, we aim to maintain low attrition and to increase our share of clients' business.

As of 31 December 2018, approximately 80% of invested assets booked outside the Americas were on the *Wealth Management Platform.* We plan to eventually converge to a single operating platform outside the Americas. In parallel, we are working on creating the *Wealth Management Americas Platform* in collaboration with third-party software provider Broadridge. This platform is anticipated to improve advisor productivity and support advisors in growing their businesses. We expect the platform, scheduled to go live in 2021, to increase efficiency and scalability.

→ **Refer to "Our focus on technology" in the "How we create value for our stakeholders" section of this report for more information on the Wealth Management Platform and Group-wide technology spend**

How we operate

We have a global footprint, with a strong presence in the world's largest and fastest-growing markets. The US is our largest market, representing more than 50% of our invested assets. We are the largest wealth manager in Asia Pacific and the second largest in Latin America, based on invested assets.[1]

In Switzerland, we maintain the leading market position and collaborate closely with Personal & Corporate Banking, Asset Management and the Investment Bank.

Our broad domestic footprint in Europe enables us to provide locally adapted offerings, while local offices across Central Europe, the Middle East and Africa keep us close to our clients.

Collaboration with the Investment Bank and Asset Management allows us to offer ultra high net worth clients tailored institutional coverage and global execution.

→ **Refer to "Working in partnership" in this section for more information on the Global Family Office**

We continue to control costs and are focused on identifying new synergies across Global Wealth Management. We expect to realize USD 600 million of cost savings over the next three years by delayering and removing duplicate functions, reducing replacement hiring and optimizing third-party spending. At the same time, we expect to make strategic investments totaling more than USD 1 billion through 2021, including USD 600 million in technology, to further improve client and advisor experience.

Our main competitors are either large US players, but with less reach outside the US −
– including Bank of America, Citigroup, JPMorgan Chase, Morgan Stanley and Wells Fargo – or geographically diverse firms without our scale or US exposure, such as BNP Paribas, Credit Suisse, Deutsche Bank, HSBC and Julius Baer. Our size and diversified client portfolio are exceptional and would be difficult and expensive for other wealth managers to replicate organically.

1 Statements of market position for Global Wealth Management are UBS's estimates based on published invested assets and internal estimates.

What we offer

By operating as a single business, we aim to offer our clients the best wealth management solutions, services and expertise globally.

We deliver our investment solutions through our IPS offerings, including flagship investment mandates, consisting of our innovative long-term themes and sustainable investment offerings. Our core investment solutions consist of: *UBS Transact,* a self-directed account granting clients access to UBS execution capabilities and the *UBS House View; UBS Advice,* which adds portfolio monitoring against an agreed investment strategy to self-directed accounts; and *UBS Manage,* a discretionary mandate solution where we use our expertise to invest clients' assets according to a predefined investment strategy. We provide our clients with investment analysis and thought leadership and formulate our client investment strategies through the CIO and the CSO. The CIO provides a concise, comprehensive *UBS House View,* which identifies and communicates investment opportunities and market risks to help protect and grow our clients' wealth over generations. The CSO aims at deepening the firm's understanding of clients' needs, behaviors and preferences to tailor our offerings and better serve our clients.

Clients benefit from our comprehensive set of capabilities and expertise, including wealth planning, investing, lending, philanthropy, corporate and banking services as well as family office services in collaboration with the Investment Bank and Asset Management.

→ **Refer to "Working in partnership" in this section for more information on collaboration between the business divisions**

We are continuously working to improve our offering. Key innovations launched in 2018 include enhancements to *UBS Manage,* which now incorporates mandate solutions with 100% sustainable investments, and two additional impact investment solutions. In addition, we launched the *Systematic Allocation Portfolio* in the US, a *UBS Manage* offering based on the UBS CIO World Equity Market Model, which analyzes economic and financial data to detect signs of improving or deteriorating equity markets to adjust portfolio exposure dynamically.

How we serve our clients

We serve our clients through local offices and dedicated advisors. Our ultra high net worth business is managed globally across the regions.

We use a mix of digital and non-digital channels (including marketing campaigns, events, advertising, publications and digital-only solutions) to help drive greater awareness of UBS among prospects and reinforce trust-based relationships between advisors and clients.

How we are organized

Our business division is organized into the regional business units the Americas, which includes the US, Canada and Latin America; Europe, Middle East and Africa (EMEA); Asia Pacific; and Switzerland, as well as the business unit for our ultra high net worth clients. Central functions for global capabilities supporting these business units are the CIO, IPS, the CSO and the COO. We are governed by executive, risk, operating as well as asset and liability committees.

4

regional
business units

The Americas, including the US, Canada and Latin America, EMEA, Asia Pacific, and Switzerland

ultra high net worth business unit

Serves clients globally across the regions

Personal & Corporate Banking

As the leading personal and corporate bank in Switzerland, we provide comprehensive financial products and services to private, corporate and institutional clients. We are among the country's foremost players in the private and corporate loan market, with a well-collateralized and conservatively managed lending portfolio. Personal & Corporate Banking is at the core of our universal bank delivery model in Switzerland.

Our focus

We are the premier personal and corporate bank in Switzerland, providing superior client experience and combining technology with a personal touch.

We have a strong pipeline of growth initiatives in both of our business areas. In Personal Banking, for example, we are further improving technology-enabled mortgage advisory and aim to improve efficiency by streamlining processes and introducing new digital self-service tools. In Corporate & Institutional Clients (CIC), we are investing for growth with a focus on our SMEs, corporates and multinationals businesses and leveraging our transaction banking capabilities. We have recently launched a number of innovations and digital solutions such as the *UBS Atrium* investor portal, which allows institutional investors to invest in mortgages directly, our vendor leasing solution and the trade finance platform *we.trade,* based on blockchain technology, which we developed as part of a consortium with other banks.

Technology plays a key role in our client-centered operating model and we aim to expand our digital leadership. Our multi-year digitalization program enables us to further enhance the client experience. On the basis of advanced analytics and blockchain technologies, we are able to offer clients new products and to identify new cross-selling opportunities.

→ **Refer to "Our focus on technology" in the "How we create value for our stakeholders" section of this report for more information on our investment in technology**

Operationally, we strive for superb execution, focusing on efficiency while improving our service quality and overall agility.

How we operate

While we operate primarily in our home market of Switzerland, we also provide capabilities to support the growth of the international business activities of our corporate and institutional clients through our local hubs in Frankfurt, New York, Hong Kong and Singapore.

In the CIC business, our main competitors are Credit Suisse, the cantonal banks and globally active foreign banks. We compete in areas covering basic banking services, cash management, trade and export finance, asset servicing, corporate finance and lending, as well as cash and securities transactions for banks.

In the Swiss personal banking business, our competitors are Credit Suisse, PostFinance, Raiffeisen, the cantonal banks and other regional and local Swiss banks. We compete in areas including basic banking, mortgages and foreign exchange, as well as investment mandates and funds.

What we offer

Our personal banking clients have access to a comprehensive life cycle-based offering and convenient digital banking. We deliver a broad range of basic banking products, from payments to deposits, cards, online and mobile banking, as well as lending (predominantly mortgages), investments and retirement services. The overall service range is complemented by our *KeyClub* reward program. In close collaboration with Global Wealth Management, we offer leading private banking and wealth management services.

→ **Refer to "Working in partnership" in this section for more information on collaboration between the business divisions**

Our corporate and institutional clients benefit from our financing and investment solutions, notably from access to equity and debt capital markets, syndicated and structured credit, private placements, leasing and traditional financing. Our transaction banking offers solutions for payment and cash management services, trade and export finance, receivables finance, as well as global custody solutions to institutional clients. In real estate, we offer our mortgage platform *UBS Atrium,* connecting institutional investors with Swiss mortgage holders to create a competitive offering and attractive investment opportunities for institutional investors.

We collaborate closely with the Investment Bank to offer capital market and foreign exchange products, hedging strategies and trading capabilities, as well as corporate finance advice. In cooperation with Asset Management, we also provide fund and portfolio management solutions.

How we serve our clients

We are the recognized digital leader with the highest online and mobile penetration in Switzerland and continue to invest in a multi-channel distribution strategy to further enhance our leading position.

We are adapting existing branch formats to suit evolving client needs, converting some locations to smaller, more agile branches that serve as marketing and digital support hubs and ensure a strong local presence. We aim to further reshape our physical footprint in an innovative and client-centric way, namely by defining future branch formats with different purposes.

In addition, we continue to shift basic banking services and transactions from branches to contact centers and digital channels, which already serve most of our 2.5 million personal banking clients. Dedicated client advisors serve personal banking clients who have more individualized needs.

Similarly, we bundle our digital offering for small businesses in our Digital Corporate Bank, which offers the convenience and leading digital solutions that small companies look for.

For marketing campaigns, we use online media (including social media and search engine advertising), out-of-home media (posters and digital billboards) and, very selectively, print, TV, radio and cinema advertising. In line with our position as a digital leader in Swiss banking, and because of the channel's cost effectiveness, we follow a digital-first media strategy. More than 50% of our media investment goes into online channels.

How we are organized

Our business division is organized into Personal Banking and CIC, and further into client and (for corporate banking) product segments. Geographically, our business and our 279 branches are organized into 10 regions, covering distinct Swiss economic areas. We are governed by executive, risk and operating committees, and operate mainly through UBS Switzerland AG.

279

branches in Switzerland

Personal Banking with
279 branches in Switzerland,
of which 91 branches are
shared with GWM
and 60 branches are
shared with CIC

Asset Management

Asset Management is a large-scale and diversified global asset manager, with USD 781 billion in invested assets. We offer investment capabilities and styles across all major traditional and alternative asset classes, as well as platform solutions and advisory support to institutions, wholesale intermediaries and Global Wealth Management clients around the world.

Our focus

Building on our global reach and strengths across all major traditional and alternative asset classes, as well as our differentiated client proposition, our strategy focuses on capturing opportunities in areas with above-average industry growth and is based on six priorities.

In wholesale, which is a rapidly evolving and attractive segment, we aim to significantly expand our market share through a combination of product innovation, the development of strategic partnerships and increased leverage of our comprehensive Platform Services capabilities.

We continue to develop our award-winning[1] Indexed and Alternative Beta business (including exchange-traded funds (ETFs) in Asia Pacific, Europe and Switzerland). Since the end of 2016, this business has grown by approximately 50% in terms of invested assets driven by continued product innovation and our highly scalable platform.

Our Investment Solutions business provides access to the breadth and depth of our capabilities across public and private markets, and combines them to meet the needs of clients across the globe, as few other firms can. To drive further growth, we are focused on delivering superior multi-asset strategies for wholesale clients and providing components of the investment process to strategic partners.

Sustainable & Impact Investing is a further key area, as clients are increasingly seeking solutions that combine their investment goals with sustainability objectives. We aim to establish ourselves as a leading provider through: product and service innovation; dedicated research; integration of environmental, social and governance factors into our investment processes; leveraging our proprietary analytics; and active corporate engagement.

Geographically, we are further expanding our onshore business in China, one of the fastest-growing asset management markets in the world, building on our extensive and long-standing presence in Asia Pacific.

To support our growth, we have a continuous emphasis on increasing efficiency and effectiveness, driven through our operational excellence initiatives. This includes our flagship programs to replace our core IT platform, develop our data analytic capabilities and further evolve our operations platform.

These programs are expected to be completed by 2020. We also continue to optimize processes and leverage new technologies across our Client Coverage, Investments and

Products, Platforms & Specialists areas.

→ **Refer to "Our focus on technology" in the "How we create value for our stakeholders" section of this report for more information on our UBS Partner offering**

How we operate

We cover the main asset management markets globally, with a presence in 23 countries grouped in four regions: the Americas; Europe, Middle East and Africa; Switzerland; and Asia Pacific.

Our main competitors are global firms with wide-ranging capabilities and distribution channels, such as Amundi, BlackRock, DWS, Goldman Sachs Asset Management, Invesco, JPMorgan Asset Management, Morgan Stanley Investment Management and Schroders, as well as firms with a specific market or asset class focus.

What we offer

We offer clients a wide range of investment products and services in different asset classes in the form of segregated, pooled or advisory mandates as well as registered investment funds in various jurisdictions.

Our traditional and alternative capabilities include equities, fixed income, hedge funds, real estate and private markets, indexed and alternative beta strategies (including ETFs) as well as sustainable and impact investing products and solutions.

Our Investment Solutions business draws on the breadth of our capabilities to offer asset allocation and currency investment strategies across the risk / return spectrum; customized multi-asset solutions, advisory and fiduciary services; and multi-manager hedge fund solutions and advisory services.

Our Platform Services capabilities include *UBS Fondcenter,* a leading fund platform in Europe and Asia; *Fund Management Services,* providing fund corporate governance and white-labeling services; and *UBS Partner,* our innovative new offering that provides banks with powerful tools and analytics to support their advisory offering.

1 Second largest Europe-based indexed player based on peers' public reporting as of November 2018 (UBS calculation) and ranked fifth largest ETF provider in Europe as of December 2018 (source: ETFGI).

How we serve our clients

We deliver our investment products and services directly to institutional clients. High net worth and retail clients are served through Global Wealth Management, third-party banks and distributors.

Our clients require world-class holistic advice and global coverage. In order to enable our client relationship managers to provide the specialized advice our clients need, and to deliver to them the full strengths of our firm, our Client Coverage teams are aligned along global segments (institutional, wholesale and Global Wealth Management). In addition, we believe it is equally important that our relationship managers are located near our clients to help ensure that our teams are best placed to build long-term relationships and develop a deep understanding of the challenges they face.

→ **Refer to "Working in partnership" in this section for examples of areas of collaboration**

How we are organized

Our business division is organized by the products and services we offer: Client Coverage, Investments, Real Estate & Private Markets, Products, Platforms & Specialists, and the Chief Operating Officer area. While we are based in 23 countries worldwide across four regions, our business is driven out of eight main hubs: Chicago, Hong Kong, London, New York, Singapore, Sydney, Tokyo and Zurich.

We are governed by executive, risk and operating committees, supplemented by business unit-specific committees.

23

countries

Covering the main asset management markets globally

8

main hubs

Connecting the full breadth of our investment insights across the world to serve our clients

Investment Bank

The Investment Bank provides a range of services to institutional, corporate and wealth management clients to help them raise capital, grow their businesses, invest and manage risks. We are focused on our traditional strengths in advisory, capital markets, equities and foreign exchange, complemented by a targeted rates and credit platform. We use our powerful research and technology capabilities to support our clients as they adapt to the evolving market structures and changes in the regulatory, technological, economic and competitive landscape.

We aspire to deliver market-leading solutions to clients, using our intellectual capital and electronic platforms. We also provide services to Global Wealth Management, Personal & Corporate Banking and Asset Management, while managing our balance sheet, costs, risk-weighted assets and leverage ratio denominator with discipline.

Our focus

Our key priority is disciplined growth in the capital-light advisory and execution businesses, while accelerating our digital transformation.

Corporate Client Solutions is focused on deepening selected industry verticals, providing macro views complemented by expertise within specific sub-sectors, and increasing senior-level client interactions. In Equities, we aim to offer our clients a range of products, innovative solutions, expert advice, access to liquidity and seamless execution, as well as a continued flow of differentiated content. In Foreign Exchange, Rates and Credit, our focus is on delivering returns from recent investments made in talent and technology. We also plan to expand our Foreign Exchange business and our Solutions business within Rates and Credit. We continue to build out *UBS Evidence Lab Innovations* to concentrate on data-driven research.

→ **Refer to “Our focus on technology” in the “How we create value for our stakeholders” section of this report for more information on Evidence Lab Innovations**

Our digital strategy is led by our businesses, which harness technology to deliver superior and differentiated client service and content. We established *UBS Investment Bank Innovation Lab* to speed up innovation by enabling proofs of concept. We are also making efforts to digitalize our entire front-to-back processes.

Our balanced global reach gives us attractive options for growth across various regions. In the Americas, the largest investment banking fee pool globally, we are focusing on increasing our market share in our Advisory, Equity Capital Markets, Equities and Foreign Exchange, Rates and Credit businesses.

In Asia Pacific, we see opportunities primarily from expected market internationalization and growth in China. We are planning to grow there by further strengthening Corporate Client

Solutions, both onshore and offshore.

Partnership across the Investment Bank’s businesses and the Group should also lead to growth by delivering global products to each region, leveraging our global connectivity across borders and sharing and strengthening our best client relationships.

→ **Refer to “Working in partnership” in this section for examples of areas of collaboration**

How we operate

We have a global reach, with a presence in 33 countries and principal offices in the major financial hubs. Our business is geographically balanced, with 45% of adjusted profit before tax in 2018 coming from the Americas, 25% from Europe, Middle East and Africa (including Switzerland), and 30% from Asia Pacific.

Competing firms are active in many of our markets, but our strategy differentiates us with its focus on leadership in the selected areas where we have chosen to compete, and a business model that leverages talent and technology rather than balance sheet.

Our main competitors are the major global investment banks, including Morgan Stanley, Credit Suisse and Goldman Sachs, as well as corporate investment banks, including Bank of America, Barclays, Citigroup, Deutsche Bank and JPMorgan Chase. We also compete with boutique investment banks and fintechs in certain regions and products.

What we offer

Through our Corporate Client Solutions business, we advise our clients on strategic business opportunities and help them raise capital to fund their activities.

Our Investor Client Services business enables our clients to buy, sell and finance securities on capital markets across the globe and to manage their risks and liquidity.

In Equities, we distribute, structure, execute, finance and clear equity cash and derivative products.

Foreign Exchange, Rates and Credit provides execution services and solutions, with an emphasis on electronic trading, and maintains high levels of balance sheet velocity. In Foreign Exchange, we help our clients manage their currency exposures and to buy and sell precious metals, and are recognized as one of the leading foreign exchange market-makers. Rates and Credit encompasses sales, trading and market-making in a selected range of products, including tailored financing solutions.

Furthermore, in Research, we offer clients key insights on major financial markets and securities around the globe. Separately, our team of experts in *UBS Evidence Lab Innovations* specializes in creating insight-ready datasets for companies of all sizes, spanning over 50 sectors and 30 countries.

We seek to develop new products and solutions that are consistent with our capital-efficient business model. These are typically related to new technologies or changing market standards. Some examples are *UBS Data Solutions,* a centralized data processing and distribution platform, which was launched to meet client demand for both financial and alternative data, and *UBS Evidence Lab Innovations,* as mentioned above.

Since 2005, we have addressed increasing client demand for sustainable investing by providing thematic and sector research. We also provide investment solutions through socially responsible and impact exchange-traded funds and index-linked notes. In addition, we offer capital-raising and strategic advisory services globally to companies that make a positive contribution to climate change mitigation and adaptation.

How we serve our clients

We use a variety of marketing channels, including online and face-to-face, to interact with our clients.

In Corporate Client Solutions, we leverage our intellectual capital and relationships to deliver high-quality solutions for our clients.

In Equities, we use our execution capabilities, differentiated research content, bespoke solutions and our global platform to expand our coverage across a broad set of institutional and corporate clients.

In Foreign Exchange, Rates and Credit, we deliver seamless client service through *One Client.* This is the evolution of our client franchise coverage model, which aims to drive the best client outcomes through relationships, collaboration, technology and data-driven client intelligence.

In Research, we deliver high-quality differentiated research to our institutional clients using a wide range of methods, including *UBS Neo,* our multi-channel platform.

How we are organized

Our business division is organized into the following units: Corporate Client Solutions, Investor Client Services, and Research and UBS Evidence Lab Innovations. We are governed by executive, operating, risk, and asset and liability committees. Each business unit is organized globally by product and, within that, by region.

9

financial hubs

In all major financial centers

33

countries

Ensuring a global reach

Corporate Center

Our Corporate Center provides services to the Group through the Corporate Center – Services and Group Asset and Liability Management (Group ALM) units with a focus on quality, risk mitigation and efficiency. Corporate Center also includes the Non-core and Legacy Portfolio unit.

How we are organized

Until the end of 2018, we reported Corporate Center as three separate units: Corporate Center – Services, Group ALM and Non-core and Legacy Portfolio.

Beginning with our first quarter 2019 report, we will provide results for total Corporate Center only and will not separately disclose Corporate Center – Services, Group ALM and Non-core and Legacy Portfolio. Furthermore, we will operationally combine Group Treasury with Group ALM and their net retained operating income will be reported as a separate line item within Corporate Center.

→ **Refer to the "Significant accounting and financial reporting changes" section in this report for more information on the changes in the structure of Corporate Center**

Corporate Center – Services

Corporate Center – Services consists of the Group Chief Operating Officer area (Group Technology, Group Corporate Services, Group Human Resources, Group Operations and Group Sourcing), Group Finance (excluding Group ALM), Group Legal, Group Risk Control, Group Communications & Branding, Group Compliance, Regulatory & Governance, and *UBS in society.*

Specifically, in the areas of finance, legal, compliance and risk management and control, we aim to provide high-quality advice while optimizing resources and mitigating risk. In other areas, such as human resources, information technology, operations, and marketing and communications, we align services based on demand and delivery of defined strategies.

These functions partner with business divisions and Group ALM through a service-based operating model. Corporate Center – Services allocates the majority of its operating expenses to the business divisions and other Corporate Center units, and determines cost allocations with them as part of the annual business planning cycle.

In 2018, we aligned our Corporate Center more closely with the business divisions, while keeping the benefits of a strong Corporate Center. Increasing proximity between the business and Corporate Center means UBS can be more agile and responsive to the needs of our clients, positioning us better to capture front-to-back opportunities in areas such as digitalization. By bringing the activities of the businesses and Corporate Center closer together, we also increase efficiency and create a working environment built on a culture of accountability and collaboration.

Corporate Center – Group ALM

Group ALM manages the structural risk of our balance sheet, including interest rate risk, structural foreign exchange risk and collateral risk, as well as the risks associated with our liquidity and funding portfolios. Group ALM also seeks to optimize financial performance by matching assets and liabilities. Group ALM serves all business divisions and the other Corporate Center units through three main risk management areas, and its risk management is fully integrated into the Group's risk governance framework.

Business division-aligned risk management activities include managing the interest rate risk in the banking book on behalf of Global Wealth Management and Personal & Corporate Banking, and managing high-quality liquid asset (HQLA) portfolios, as well as risk management of credit, debit and funding valuation adjustments for our over-the-counter derivatives portfolio. Net income generated by these activities is fully allocated to the associated business divisions and other Corporate Center units.

Capital investment and issuance activities consist of managing our equity and capital instruments as well as instruments that contribute to our total loss-absorbing capacity (TLAC). Revenues from investing the Group's equity, and the incremental expenses of issuing capital and TLAC instruments at the UBS Group AG level relative to issuing senior debt out of operating subsidiaries, are fully allocated to the business divisions and other Corporate Center units.

Group structural risk is managed to meet overall objectives. These activities include managing the Group's HQLA and long-term debt portfolios. The net positive or negative income generated is allocated to the business divisions and other Corporate Center units based on their consumption of the underlying risks and resources.

Corporate Center – Non-core and Legacy Portfolio

Non-core and Legacy Portfolio manages legacy positions from businesses exited by the Investment Bank, following a largely passive wind-down strategy. It is overseen by a committee chaired by the Group Chief Risk Officer. The portfolio also includes positions relating to legal matters arising from businesses that were transferred to it at the time of its formation.

→ **Refer to "Note 21 Provisions and contingent liabilities" in the "Consolidated financial statements" section of this report for more information on litigation, regulatory and similar matters**

Our environment

Current market climate

Global economic developments in 2018

The global economy maintained its pace of growth in 2018. World GDP expanded by 3.8%, almost identical to the 3.9% growth of 2017.

Economic expansion was as broadly based as in 2017, with no G20 nations in recession. The US provided much of the growth impetus, driven, in part, by its Tax Cuts and Jobs Act introduced in December 2017, which put the US on course for 2.8% growth (up from 2.2% in 2017). The stronger economy and lower tax rates contributed to more than 20% higher corporate earnings, despite concerns over a potential trade conflict with China.

Growth was slower in the eurozone. However, the region managed to get through the year without major political or economic shocks. A dispute between the Italian government and the European Commission was resolved, and the Greek debt crisis, which in recent years seemed to threaten the integrity of the eurozone, was largely absent from the headlines. Overall, eurozone GDP increased by close to 2% for the year. Outside of the eurozone, the Swiss economy did especially well, expanding 2.6% after 1.7% in the prior year.

Emerging markets faced mounting pressures. Efforts by China to restrain domestic corporate borrowing cooled its economy, with growth slowing to 6.5%, from 6.9% in 2017. Other emerging nations were also affected as the trade conflict between the US and China dampened business confidence. Despite such obstacles, most emerging market economies achieved solid GDP expansion – with the Indian economy even seeing growth improve to 7.3%, from 6.7%.

This relatively benign backdrop and muted inflation pressures allowed developed market central banks to continue gradually tightening monetary policy. The European Central Bank announced it would end its quantitative easing program, while the Federal Reserve contracted its balance sheet by USD 50 billion a month and increased its target overnight rate by 1 percentage point in four steps during 2018.

For much of the year, US equities performed strongly in this environment of sound growth, rising earnings and only gradual central bank tightening of monetary policy. The strength of the US market helped lift global stock indexes, more than offsetting a muted performance from emerging market and eurozone indexes. However, markets turned volatile in October 2018.

The Morgan Stanley Capital International (MSCI) All Country World Index – which by late September 2018 had climbed 6% year to date – saw a correction in the last quarter and ended the year with a loss of 7.7%. This was the first year of negative returns since 2011.

Safer assets, such as 10-year US Treasury bonds (USTs), proved more stable to investors. Yields on 10-year USTs fell around 40 basis points in the last three months of the year.

Uncertainty over the terms of the UK withdrawal from the EU captured headlines but had limited effect on global markets.

Economic and market outlook for 2019

The economic cycle is maturing. Potential setbacks such as trade turmoil and monetary tightening could create obstacles for investors. However, we do not think they will tip the global economy into recession. The US-China trade dispute looks set to remain a concern, but a major escalation that could end the global economic expansion appears unlikely.

We do not expect the ongoing negotiations on the UK's withdrawal from the EU to exert a major influence over global markets.

Equally, we expect the world's main central banks to avoid excessive tightening of monetary policy. For the first time since the 2008 financial crisis, central bank balance sheets are likely to be smaller at the end than at the start of the year. The withdrawal of stimulus will remove a powerful force inhibiting market volatility. However, with inflation still under control, policy makers can afford to be gradual in tightening, reducing the risk that they will undermine growth or unsettle markets with accelerated rises. In the US, expectations about multiple interest rate hikes during 2019 have diminished.

We do not see signs of overvaluation in global equity markets. As of the end of 2018, global stocks traded at a discount to their 30-year average on a trailing price-to-earnings basis, reflecting the aggressive sell-off in the fourth quarter and the higher earnings achieved throughout the year.

Equity markets recovered at the start of 2019, supporting our view that the sell-off in late 2018 was excessive.

Industry trends

While our industry was heavily affected by regulatory developments over the past decade, technology is slowly emerging as the main driver of change going forward and is expected to affect the competitive landscape as well as our products and operations.

Digitalization

Technology is changing the way banks operate and we expect this to continue in step with exponential advances in computing capability, evolving customer needs and digital trends. Technology spend is no longer solely considered a means to make banks more efficient. Today, technology investment is the key to keeping banks flexible and competitive in a digitalized world and creates the opportunity to develop new business models.

We strive to deliver state-of-the-art digital tools and services to provide a better experience for clients and employees. In doing so, we are continuously improving the ability to transact, perform day-to-day tasks and add value for the firm. UBS's digital ecosystem is powered by a growing number of automated systems and processes that generate data, which in turn drive our efforts in artificial intelligence. It is this convergence of automation, artificial intelligence and strong human capital that will drive innovation and superior client experience, as well as enable business growth.

Consolidation

We expect further consolidation in the financial services industry, driven by ongoing margin pressure as well as the increasing scale advantages resulting from the fixed costs of technology and regulation. Many regions and businesses are still highly fragmented and the search for scale and cost efficiencies is expected to be a key driver for consolidation. Many banks are also seeking exposure to regions with attractive growth profiles, such as Asia and emerging markets, through local acquisitions or partnerships. Lastly, the increased focus on core capabilities or geographical footprints and the ongoing simplification of operating models to reduce operational and compliance risks will also result in further disposals of non-core businesses and assets.

New competitors

Our competitive environment is also evolving. In addition to our traditional competitors in the asset-gathering businesses, new entrants are targeting selected components of the value chain. However, we have not yet seen a fundamental unbundling of the value chain and client relationships, ultimately resulting in the disintermediation of banks by new competitors. Over the longer term, we believe the entry into the financial services industry of large platform companies could pose a significant competitive threat, given their strong client franchises and access to client data.

Regulation

The measures set out by the post-2008 regulatory reform agenda are now largely in place. While some areas, such as funding in resolution, must still be fully addressed, and implementation of certain standards, such as the Basel III capital rules, is continuing on a national level, the focus is shifting from regulation to supervision. In parallel, some regulators are considering reassessing the efficiency of the new frameworks.

In general, regulatory-driven change continues to consume substantial resources. In 2019, we expect further adjustments to the Swiss too big to fail framework, including concrete proposals to implement the finalized Basel III standard at national level. We anticipate continued work on resolution-related and derivatives reforms, and a sustained high focus on conduct and anti-money laundering.

The overall context of these developments is a backdrop of increased protectionism and new regulatory hurdles, posing challenges to the provision of cross-border financial services. Market access restrictions into the EU in particular would have a significant effect on Switzerland as a financial center including UBS. Variations in how different countries implement rules, and an increasing national focus, bring a risk of additional regulatory fragmentation across the globe, which in turn may lead to higher costs for us and new financial stability risks. However, we believe the adaptations made to our business model and proactive management of regulatory change put us in a strong position to absorb upcoming changes to the regulatory environment.

→ **Refer to the "Regulatory and legal developments" and "Capital management" sections of this report for more information**

Wealth transfer

Demographic and socioeconomic developments continue to generate shifts in wealth among age and gender groups. As a result, the client base of the wealth management industry is becoming increasingly diverse. The industry is therefore bound to adapt its services and offerings to meet the specific needs and expectations of growing client groups. We are working to defend our status as the preferred wealth manager for these clients through our active segment management strategy. Our wealth planning expertise is also supported by dedicated intergenerational wealth transfer services for all segments, such as *Great Wealth* for ultra high net worth clients. *Wealth Way* is another example that covers wealth transfer. This offering takes a holistic view of our clients' financial matters and covers needs beyond their lifetime to support them in creating a legacy.

Retirement funding

Over recent years, the pension industry has faced two key challenges: fundamental demographic shifts, such as aging populations, and lower expected returns.

Beyond structural answers to these challenges, such as the progressive shift from defined benefit to defined contribution pensions, we believe pension funds are reassessing their asset allocation approach. Indeed, many pension funds are now allocating a higher share of their portfolios to alternative investments such as private equity, hedge funds, real estate and infrastructure in a search for higher-yielding exposures.

We see this development as positive for UBS as these funds will likely need further support to define their investment strategy and target portfolio allocation. In addition, our private banking and wealth management clients are expected to need further financial and retirement planning advice, which we are able to provide holistically through our wealth planning services.

How we create value for our stakeholders

Clients

With clients at the heart of our business, we are committed to building and sustaining long-term relationships based on mutual respect, trust and integrity. Understanding our clients' needs and expectations allows us to serve their best interests and to create value for them.

Our clients and what matters most

There is no archetypal UBS client. Our clients have varying needs, but each of them expects outstanding advice and service, a wide range of choices, and an excellent client experience.

Global Wealth Management serves high net worth and ultra high net worth individuals, families, and family offices around the world and affluent clients in selected markets. We provide these clients with access to outstanding advice, service, and opportunities from around the globe delivered by experts they can trust. Global Wealth Management clients demand a bank that understands their unique needs and circumstances. A bank that values long-term relationships built on trust and dependability, and a bank that helps them maintain their lifestyles today, improve their lifestyles in the future, and improve the lives of others.

In Switzerland, Personal & Corporate Banking serves approximately 2.5 million individuals and 121,000 corporate and institutional clients, ranging from small and medium-sized companies to larger corporates and multinational companies. Personal & Corporate Banking clients look for financial advice based on their needs at each stage of their life cycle, as well as a comprehensive digital offering enabling them to bank at their convenience, wherever they are, whenever they want to. We provide tailored advice, drawing on our broad product offering in all relevant areas: basic banking services, investing, financing (including mortgages), retirement planning, cash management, trade and export finance, global custody, and company succession among others.

In Asset Management, we deliver investment products and services directly to approximately 3,000 clients around the world – including sovereign institutions, central banks, supranational corporations, pension funds, insurers and charities, as well as Global Wealth Management and its clients, wholesale intermediaries and financial institutions. Our clients seek global insights and a holistic approach to tailoring solutions. By building long-term, personalized relationships with our clients and partners, we aim to achieve a deep understanding of their needs and to earn their trust. We draw on the breadth and depth of our global offering across asset classes and our Platform Services capabilities to deliver the solutions they need. With over 900 investment professionals, our teams bring distinct investment styles and philosophies with one shared goal – to provide clients with best-in-class ideas and superior investment performance.

The Investment Bank provides corporate, institutional and wealth management clients with expert advice, financial solutions, best-in-class execution, and comprehensive access to the world's capital markets. Our model is specifically built around our clients and their needs. Corporate clients can access advisory services, debt and equity capital market solutions and bespoke financing through our Corporate Client Solutions business. Our Investor Client Services business is focused on helping institutional clients engage with local markets globally, offering equities and equity-linked products, foreign exchange, rates and credit, and is underpinned by our research offering, which gives clients an edge when it comes to understanding markets. *UBS Evidence Lab Innovations* provides clients with access to insight-ready datasets for thousands of companies – the same evidence we provide to our UBS Research analysts.

Enhancing the client experience through digitalization

We strive to personalize interactions with our clients, while streamlining and simplifying them through front-to-back digitalization.

In Global Wealth Management we provide our clients with a hybrid approach that preserves and enhances the value of human relationships. Clients expect digital tools but say personal time spent with advisors is more important than ever. This means providing technology that empowers client advisors so they spend more time with clients. And our clients want digital tools that improve their experience – high end e-banking, access to bespoke research that is tailored to their needs, and multiple ways to communicate with their client advisors.

In Personal & Corporate Banking, more than 60% of our personal banking client relationships are now completely paperless and we pioneered video onboarding in Switzerland. In addition, front-to-back digitalization enables corporate clients to create customized product bundles based on their specific needs. We also pioneered the new blockchain-based trade finance platform we.trade, together with other industry participants, which allows corporate and institutional clients to easily and safely create trade orders online and manage the entire trade process from order to payment.

In Asset Management we are investing in new tools and technologies, as well as our alternative data capabilities, to support our teams' investment decision-making processes and enhance client service. In addition, our flagship operational excellence programs are focused on building a scalable and globally integrated operating platform to better enable our teams to deliver the full breadth of our capabilities to clients around the world. We also continue to develop our comprehensive Platform Services capabilities including *UBS Partner,* our new and innovative private-label technology solution, which will enable a step change in the advisory process and services offered by our wholesale clients.

The Investment Bank strives to be the digital investment bank of the future, with innovation-led businesses that drive efficiencies and solutions. Our investments in new technologies and data science teams help us to better understand our clients' investment processes and trading needs. This allows us to deliver tailored sales and trading commentary, research, access to liquidity and prime brokerage products. We recently established the *UBS Investment Bank Innovation Lab* to help connect business teams to leverage best practice, build and test proof of concepts safely and quickly and inspire a culture of innovation. We see increasing interest from clients in financial and alternative datasets that they can incorporate into their models. In response, we set up *UBS Data Solutions* to meet those needs through a centralized robust data processing and distribution platform.

→ **Refer to "Our focus on technology" in this section for more examples on how technology is used for the benefit of our clients**

Our focus on technology

As digitalization continues to transform the banking industry, investment in technology plays a critical role in maintaining our position as the largest global wealth manager. In 2018, we spent USD 3.5 billion on technology and we expect to maintain around this level of spend through 2021. We gear our investments toward technologies to enable business growth through innovation and superior client experience, and to continue to increase efficiency across the organization.

Significant achievements in 2018 include laying the foundations for enterprise-wide Cloud adoption. We expect that leveraging the Cloud will enable us to respond more rapidly to market changes and client needs without compromising on security or efficiency. We aim to take advantage of the Cloud by improving the scalability of our systems and reducing the time to market for innovative IT products.

Additionally, we continued deploying robots (i.e., automated processes) to reduce manual work and ensure the stability of our systems. We are growing capabilities for smarter cognitive technologies including artificial intelligence (AI) to support more insightful and faster decision making.

Advanced technologies are used in our business divisions and Corporate Center to enhance the client experience by increasing front-to-back digitalization, improving product excellence and distribution, driving efficiency gains and maintaining platform security. Selected highlights are described below.

Investors

We build long-term value for our investors by executing our strategy with discipline, striving for cost- and capital-efficient growth, long-term sustainable value creation and attractive shareholder returns.

Cost- and capital-efficient revenue growth

Our ambition is to grow our Group revenues faster than global real GDP. Our Global Wealth Management business is well positioned to take advantage of two secular trends: wealth creation and continued economic growth, notably in Asia, where China is opening its financial markets. Each of our businesses has initiatives to achieve revenue growth and improve operating efficiency in its area.

→ **Refer to “Industry trends” in the “Our environment” section of this report for more information on wealth creation**

While we aim to increase revenues, cost efficiency is a strategic priority for us. Similarly, capital efficiency is of utmost importance for UBS overall and for each business division. To provide further transparency and increase accountability on costs and capital consumption, we have revised our cost allocation methodology and equity attribution framework effective on 1 January 2019.

→ **Refer to the “Significant accounting and financial reporting changes” section of this report for more information**

Shareholder returns

We aim to increase our ordinary dividend per share at a mid-to-high single-digit percentage each year. We also aim to return excess capital, after accruals for ordinary dividends, most likely in the form of share repurchases. We consider our business outlook and capital plan, as well as other developments, in determining excess capital available for share repurchases.

Alignment of interests

We aim to align the interests of our employees with those of our equity and debt investors. This is reflected in our compensation philosophy and practices.

→ **Refer to “Our compensation philosophy” in the “Compensation” section of this report for more information**

Communications

Our Investor Relations function serves as the primary point of contact between UBS and the institutional investor community. Our senior management and the Investor Relations team regularly interact with investors, financial analysts and other market participants, such as credit rating agencies. Clear, transparent and relevant disclosures, together with regular and direct interactions with existing and prospective shareholders, form the basis for our communications. The Investor Relations team also relays the views of and feedback from the institutional investor community on UBS to our senior management.

The Investor Relations and Corporate Responsibility teams work together and interact with those investors focusing on sustainability topics relevant to UBS and society at large.

→ **Refer to “Corporate governance” and “Information policy” in the “Corporate governance and compensation” section of this report for more information**

→ **Refer to ”Society” in this section of the report for more information on our sustainability efforts**

Employees

Our employees are crucial to our business strategy. Accordingly, our human resource (HR) strategy seeks to attract, develop and retain talented people at all levels with the diverse skills, experience and commitment to effectively advise our clients, deliver innovative solutions, manage risk, navigate evolving regulatory requirements, and drive change.

Our corporate culture

A strong culture drives sustainable success and adds value at the individual, team and corporate levels. We invest in our employees and promote measures that build engagement and a cohesive, collaborative work environment. Our strategy and culture are underpinned by our three keys to success: our *Pillars, Principles and Behaviors.* These keys are the foundation for how we manage our workforce, how we work with our stakeholders and each other, and how we make business decisions and deliver on our strategy.

→ **Refer to the contents page of this report for more information on the Pillars, Principles and Behaviors**

Since 2013, we have embedded the three keys into our culture, including all HR processes, through transformative initiatives like our firm-wide Senior Leadership Experience and, more recently, our *Group Franchise Awards (GFA)* program. The *GFA* program fosters cross-divisional collaboration and ideas for simplifying our processes, with more than 14,300 business referrals and nearly 900 simplification ideas submitted in 2018.

We measure our culture-building progress through regular employee surveys. In 2018, responses indicated that employee engagement, appreciation for our talent management practices and pride in working at UBS were at, or above, the norm for high-performing organizations.

Employer of choice

We are widely recognized as an employer of choice, as evidenced by the numerous external awards that we have received. Key to this is ensuring our employees can build rewarding careers here. Internal mobility therefore remained a priority in 2018, as it builds cross-firm connections, increases engagement and enables employees to leverage and develop their skills. We further enhanced our suite of in-house recruitment tools during the year to better match internal talent with open roles, and developed specialized training to increase line manager effectiveness.

We received nearly 847,000 applications and hired a total of 13,249 external candidates in 2018. For our graduate talent programs, we hired 467 new university graduates and 585 interns. In Switzerland, we hired 268 apprentices for business and IT roles, and 151 trainees into our bank entry programs for high school graduates. Our UK apprenticeship program hired 57 school leavers across various roles.

→ **Refer to *www.ubs.com/employerawards* for more information**

Our diverse and inclusive workplace

Our diverse workforce and inclusive culture are critical to our long-term success. We are committed to further increasing our diversity and to ensuring equal opportunities for all employees.

We are especially focused on hiring, retaining and promoting more women across the firm, with a stated aspiration to increase the representation of women in management roles to one-third.

Our award-winning *UBS Career Comeback Program,* already established in the UK, US and Switzerland, was extended to India in 2018. The program offers permanent roles to professionals wishing to return to corporate jobs after a career break and supports them with on-the-job experience, classroom learning and mentoring. To date, *Career Comeback* has helped 102 women and 2 men at senior levels to relaunch their careers.

In addition to our strategic initiatives, every year we sponsor numerous activities to promote inclusiveness. For example, this year we became a supporter of the UN Standards of Conduct for Business, a set of anti-discrimination guidelines. Additionally, our employee networks regularly host events regarding gender, culture, ethnicity, LGBTI / Pride, disability, veterans, parenting, elder care and other topics. In 2018, we sponsored 43 employee networks globally.

→ **Refer to *www.ubs.com/diversity* for more information**

Our integrated workforce strategy

Throughout the year, the firm focused on enabling higher productivity, enhancing the client experience, building critical in-house expertise and managing costs. Our integrated workforce strategy contributed to these achievements through a combination of insourcing (especially in Group Technology) and regular hiring of staff. As a result, our Business Solutions Centers (BSCs) in China, India, Poland, Switzerland and the US grew substantially.

Our BSC employee population increased by 3,115 in 2018 through hiring or insourcing, including 1,893 in India and 822 in Poland. We also expanded our BSC presence in Switzerland with the opening of a new BSC in Manno, focused on data analytics and artificial intelligence. At year-end, offshore and nearshore employees accounted for around 29% of our global Corporate Center employee population. As a result of insourcing initiatives and improved efficiency, we reduced our external staff in Corporate Center by 5,515.

Personnel by region

	As of			% change from
Full-time equivalents	**31.12.18**	31.12.17	31.12.16	31.12.17
Americas	**21,309**	20,770	20,522	3
of which: USA	***20,495***	*19,944*	*19,695*	*3*
Asia Pacific	**12,119**	8,959	7,539	35
Europe, Middle East and Africa	**12,620**	11,097	10,746	14
of which: UK	***5,782***	*5,274*	*5,206*	*10*
of which: rest of Europe	***6,670***	*5,662*	*5,373*	*18*
of which: Middle East and Africa	***168***	*161*	*167*	*5*
Switzerland	**20,840**	20,427	20,581	2
Total[1]	**66,888**	61,253	59,387	9

1 The increase in workforce in 2018 was mainly due to insourcing initiatives and was more than offset by a decrease in external staff.

Gender distribution by employee category[1]

	Officers (Director and above)		Officers (other officers)		Employees		**Total**	
By headcount, as of 31.12.18	Number	%	Number	%	Number	%	**Number**	**%**
Male	18,514	75	15,465	61	7,794	43	**41,773**	**61**
Female	6,078	25	10,059	39	10,428	57	**26,565**	**39**
Total	24,592	100	25,524	100	18,222	100	**68,338**	**100**

1 Calculated on the basis that a person (working full time or part time) is considered one headcount (in this table only). This accounts for the total UBS employee number of 68,338 as of 31 December 2018, which excludes staff from UBS Card Center, Wolfsberg and Hotel Seepark Thun.

Developing and retaining talent

Our business strategy and culture are advanced through education and leadership development, with our in-house *UBS University* as the one-stop shop for all learning activities at UBS. Through our suite of development programs, business skills and risk management classes, as well as lifelong learning opportunities, we seek to ensure that all employees have the skills and expertise to meet client needs and grow their careers. Our Master in Wealth Management program remains the pinnacle of development for client-facing staff in Global Wealth Management. By the end of 2018, 208 senior client advisors, desk heads and client-aligned managers had successfully completed (or were on track to complete) the two-year degree program.

In 2018, *UBS University* transformed its offering to connect employees with global trends, transform their businesses, lead in a digital world and re-skill to prepare for the future. Monthly recommended learning playlists enable employees to explore a wide variety of topics. Our permanent employees completed approximately 812,000 learning activities in 2018, including mandatory training on compliance, business and other topics. This averaged to 11.9 sessions, or 1.76 training days, per employee.

Clear expectations, challenging goals, continuous feedback and a performance-centric compensation framework promote long-term success for employees, as well as for the firm. Since we believe that how we achieve results is as important as the results themselves, our annual year-end reviews assess both performance goals and the behaviors of integrity, collaboration and challenge. Both ratings are then considered in development, reward and promotion decisions. Our firm-wide talent management and succession-planning processes, including accelerated development and internal mobility opportunities for key talent, support employee satisfaction and retention and help ensure our long-term success.

Our workforce at a glance[1]

Our strategy, business model and environment
How we create value for our stakeholders

Society

We want to promote global economic development that is sustainable for the planet and humanity. We have embodied the overarching objective of the 17 Sustainable Development Goals (SDGs), which provide a roadmap to solve the common sustainability-related challenges of our society.

→ **Refer to the UBS World Economic Forum white paper 2019 under *www.ubs.com/wef* for more information**

As the preeminent global wealth manager to high net worth and ultra high net work clients, we aspire to take a leading role in shaping the future. Our firm is in a powerful position to contribute toward achieving the SDGs by integrating sustainability in our mainstream offerings, through new and innovative financial products with a positive effect on the environment and society, and by advising our clients on their philanthropic works.

We contribute to the setting of standards and collaborate in and beyond our industry. We do so through the management of environmental and social risks, the management of our environmental footprint and our comprehensive sustainability disclosures. Information on all of these efforts and commitments is provided in the Global Reporting Initiative (GRI) Document on our website. For all references to the GRI Document 2018, refer to “Annual reporting” at *www.ubs.com/investors*. The content of the GRI Document has been prepared in accordance with the GRI Standards (“comprehensive” option) and with the German rules implementing the EU directive on disclosure of non-financial and diversity information (2014/95/EU). Our reporting on sustainability has been reviewed by Ernst & Young Ltd against the GRI Standards providing limited assurance.

Code of Conduct and Ethics

In our Code of Conduct and Ethics (Code), the Board of Directors and the Group Executive Board set out the principles and practices that define our ethical standards and the way we do business. These principles apply to all aspects of our business.

All employees must confirm annually that they have read and will adhere to the Code and other key policies, supporting a culture where ethical and responsible behavior is part of our everyday operations.

→ **Refer to the Code of Conduct and Ethics of UBS at *www.ubs.com/code* for more information**

UBS in society is a dedicated organization within the firm, focused on maximizing our positive effect and minimizing any negative effects UBS has on society and the environment. It covers topics such as sustainable and impact investing, client philanthropy, environmental and human rights policies governing client and supplier relationships, and our community investment. Through *UBS in society,* UBS is driving change that matters by using our firm's expertise to bring about sustainable performance.

The activities driven by *UBS in society* are overseen, at the highest level of our firm, by our Board of Directors' Corporate Culture and Responsibility Committee (CCRC). The Group CEO proposes the *UBS in society* strategy and annual objectives to the CCRC, supervises their execution and informs the Group Executive Board and CCRC, as appropriate. Reporting to the Group CEO, the Head *UBS in society* is UBS's senior-level representative for sustainability issues.

→ **Refer to "Board of Directors" in the "Corporate governance" section of this report for more information on the CCRC**

→ **Refer to the GRI Document 2018 for more information on UBS's sustainability governance and UBS in society**

Supporting clients in their sustainability efforts

At the heart of our approach to sustainability are both our clients and society at large. We support clients in their sustainability efforts through thought leadership, innovation and partnerships, and strive to incorporate environmental, social and governance (ESG) impacts into the products and services we provide, serving society through them.

We know that ESG topics are increasingly important to society and our clients alike. Our research found that 58% of high net worth investors expected sustainable investing to become the standard within 10 years, while 82% believed SI returns would match or surpass those of traditional investments.

Moreover, we are among the 2,200 signatories of the Principles for Responsible Investment (PRI), the world's leading proponent of responsible investment. The PRI works to support its signatories in incorporating ESG factors into their investment and ownership decisions.

Sustainable investing

Sustainable investing (SI) is an approach that seeks to incorporate ESG considerations into investment decisions. SI strategies seek to achieve one or more of the following objectives: achieve a positive environmental or social impact, align investments with an investor's personal environmental or social values or improve portfolio risk and return characteristics. We aim to be a leader in SI for private and institutional clients, measurable by the size of SI assets under management (AuM).

As of 31 December 2018, total SI assets represented USD 1,110 billion (2017: USD 1,133 billion), or 35.8% (2017: 34.7%), of our total invested assets. Our core SI assets increased to USD 313 billion (2017: USD 182 billion), representing 10.1% (2017: 5.6%) of our total invested assets. Core SI products involve a strict and diligent asset selection process through either exclusions (of companies / sectors from the portfolio where the companies are not aligned to an investor's values) or positive selections (such as best-in-class, thematic or ESG integration and impact investing).

→ **Refer to the "Our businesses" section of this report for more information on how individual business divisions incorporate sustainability into their approach**

→ **Refer to the "Sustainable investments" table in the "Our clients" section of the GRI Document 2018 for more information on SI**

Philanthropy – partnering with clients for good

We believe our clients can make a meaningful, and measurable, difference for their chosen causes with advice from our philanthropy experts and programs carefully selected through our UBS Optimus Foundation. We increase social impact by combining our expertise with capital and networks. Together with the UBS Optimus Foundation, our experts offer clients unique access to social and financial innovation and philanthropic advice, as well as tailored program design, co-funding and co-development opportunities.

The UBS Optimus Foundation is an award-winning grant-making foundation that helps our clients use their wealth to drive positive and sustainable social change for children. The Foundation connects clients with inspiring entrepreneurs, new technologies and proven models that make a measureable difference to the world's most vulnerable children. In 2018, the Foundation's work helped improve the well-being of 2.8 million children globally.

→ **Refer to *www.ubs.com/optimus* for more information**

Climate action

We believe the transition to a low-carbon economy is vital and we are focused on supporting our clients in preparing for success in an increasingly carbon-constrained world. We implement our climate strategy in four different ways:

– by seeking to protect our assets from climate change risks;

– by supporting our clients' efforts to assess, manage and protect themselves from climate-related risks;

– by mobilizing private and institutional capital toward investments that facilitate climate change mitigation and adaptation, and by supporting the transition to a low-carbon economy as a corporate advisor and / or with our lending capacity; and

– by continuing to reduce our greenhouse gas emissions and increase the firm's share in renewable energy.

We regularly report on the implementation of our climate strategy and follow the recommendations on climate-related disclosures provided by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

→ **Refer to "Our climate strategy – taking action to support a low-carbon economy" in the "Our Governance and principles" section of the GRI Document 2018 for our full climate-related disclosures**

Environmental and social risk

We consider environmental and social risk (ESR) management critical to our sustainability strategy. Our comprehensive ESR framework governs client and supplier relationships and applies firm-wide to all activities, meets the highest industry standards (as recognized by ESG ratings) and is integrated in management practices and control principles.

We have set ESR standards pertaining to environmental and human rights topics in product development, investments, financing and supply chain management. We have identified certain controversial activities that we will not engage in at all, or only under stringent criteria. As part of this process, we engage with clients and suppliers to better understand their processes and policies, and to explore how any environmental and social risks may be mitigated.

→ **Refer to the GRI Document 2018 for a full description of our ESR management and framework**

Community investment

We recognize that our long-term success depends on the health and prosperity of the communities of which we are a part. We seek to redress disadvantages through long-term investments in education and entrepreneurship. We provide strategic financial commitments and targeted employee volunteering to drive change.

→ **Refer to the "Our communities" section of the GRI Document 2018 for more information**

Aims and progress

We work with a long-term focus on providing appropriate returns to all of our stakeholders in a responsible manner. To underline our commitment, we provide transparent targets and report on progress made against them wherever possible. In 2018, we made good progress in delivering against the Group aims.

A leader in sustainable investing (SI) for private and institutional clients as demonstrated by the size of UBS's SI AuM, for which UBS has: – set the ambition to double the penetration of core SI assets by the end of 2020, from 5.6% (USD 182 billion) of our total invested assets at the end of 2017[1]; and – set a target of directing USD 5 billion of client assets into new impact investments for the SDGs by the end of 2021.	– The penetration of core SI assets increased to 10.1% (USD 313 billion) of our total invested assets in 2018, a 72% increase over 2017 (USD 182 billion).[1, 2] – USD 1.9 billion of client assets were directed into SDG-related impact investments[3].
A recognized innovator and thought leader in philanthropy as shown by the engagement with our key stakeholders and our work to support positive social impact, for which UBS aims to: – achieve 40% of employees volunteering by the end of 2020, of which 40% of volunteer hours will be skills based; and – pioneer new ways to bring substantial funding to the SDGs and substantially increase donations to the UBS Optimus Foundation to improve the well-being of vulnerable children.	– 36% of our global workforce volunteered and 45% of the volunteer hours were skills based.[4] – UBS Optimus Foundation: USD 66.6 million in donations raised; USD 81.8 million grants approved; well-being of 2.8 million children globally improved; three Development Impact Bonds in education and health care launched.
An industry leader in sustainability by retaining favorable positions in key environmental, social and governance (ESG) ratings and driving optimization in areas that are important to ESG investors.	– UBS maintained its industry leadership in the Dow Jones Sustainability Indices (DJSI). – MSCI ESG Research upgraded UBS to an AA rating. – Sustainalytics ranked UBS an industry leader.

– CDP awarded UBS a position on the Climate A List.

1 Core SI are SI products that involve a strict and diligent asset selection process through either exclusions (of companies/sectors from the portfolio where the companies are not aligned to an investor's values) or positive selections (such as best-in-class, thematic or ESG integration and impact investing). Refer to the "Sustainable investments" table in the "Our clients" section of the GRI Document 2018. 2 The increase in core SI assets was mainly driven by the ESG integration strategy of Asset Management. Refer to the "Sustainable investments" table in the "Our clients" section of the GRI Document 2018 3 Strategies, where the investment has the intention to generate measurable environmental and social impact alongside a financial return. 4 Refer to the "Our communities" section in the GRI Document 2018.

Regulation and supervision

As a financial services provider based in Switzerland, UBS is subject to the consolidated supervision of the Swiss Financial Market Supervisory Authority (FINMA). Our entities are also regulated and supervised by the authorities in each of the countries where they conduct business. Through UBS AG and UBS Switzerland AG, which are licensed as banks in Switzerland, the Group may engage in a full range of financial services activities in Switzerland and abroad, including personal banking, commercial banking, investment banking and asset management.

As a global systemically important bank (G-SIB), as designated by the Financial Stability Board, and a systemically relevant bank (SRB) in Switzerland, we are subject to stricter regulatory requirements and supervision than most other Swiss banks. The significant changes to financial regulation after the financial crisis in 2008 have had a material effect on how we conduct our business and have required significant investment.

→ **Refer to the “Our evolution” section of this report for more information**

→ **Refer to the “Regulatory and legal developments” and “Risk factors” sections of this report for more information**

Regulation and supervision in Switzerland

Supervision

UBS Group AG and its subsidiaries are subject to consolidated supervision by FINMA under the Swiss Federal Law on Banks and Savings Banks (Swiss Banking Act) and related ordinances, which impose, among other requirements, minimum standards for capital, liquidity, risk concentration and internal organization. FINMA fulfills its statutory supervisory responsibilities through licensing, regulation, monitoring and enforcement. It is responsible for prudential supervision and mandates audit firms to perform regulatory audits and other supervisory tasks on its behalf.

Capital adequacy and liquidity regulation

As an internationally active Swiss SRB, we are subject to capital and total loss-absorbing capacity requirements, which are based on both risk-weighted assets and leverage ratio denominator and are among the most stringent in the world. Furthermore, we are subject to shorter-term liquidity coverage ratio rules, and following the introduction of the net stable funding ratio in Switzerland, we will be subject to longer-term minimum funding requirements.

→ **Refer to the “Capital management” section of this report for more information on the Swiss SRB framework and the Swiss too big to fail requirements**

→ **Refer to “Assets and liquidity management” in the “Treasury management” section of this report for more information on liquidity coverage ratio requirements**

Resolution planning and resolvability

The Swiss Banking Act and related ordinances provide FINMA with intervention powers to resolve a failing financial institution, including UBS Group AG, UBS AG and UBS Switzerland AG. These measures may be triggered when thresholds are breached and allow FINMA considerable discretion in determining whether, when or in what manner to exercise such powers. In case of impending insolvency, FINMA may impose more onerous requirements on UBS, including limiting payment of dividends and interest, as well as measures to alter our legal structure (e.g., to separate lines of business into dedicated entities, with limits on our intra-Group funding and intra-Group guarantees) or to reduce business risk in some manner. The Swiss Banking Act allows FINMA to extinguish or convert to common equity the liabilities of the Group in connection with its resolution.

Swiss too big to fail provisions require Swiss SRBs to establish an emergency plan that shows how Swiss systemically important functions can be maintained in a crisis. In response to these requirements in Switzerland, and to similar requirements in other jurisdictions, UBS – in close cooperation with its main resolution authorities under the lead of FINMA – has developed recovery plans and resolution strategies to manage a crisis. UBS has also developed plans for restructuring or winding down businesses if the firm could not be stabilized by other means. In recent years, we have invested significantly in making UBS simpler from a structural, financial and operational perspective.

Regulation and supervision outside Switzerland

Regulation and supervision in the US

In the US, UBS is subject to regulation and supervision by the Board of Governors of the Federal Reserve System (Federal Reserve Board) under a number of laws. UBS Group AG and UBS AG are both subject to the Bank Holding Company Act, under which the Federal Reserve Board has supervisory authority over the US operations of both UBS Group AG and UBS AG. UBS's US operations are also subject to oversight by the Federal Reserve Board's Large Institution Supervision Coordinating Committee.

In addition to being a financial holding company under the Bank Holding Company Act, UBS AG maintains several branches and representative offices in the US, which are authorized and supervised by the Office of the Comptroller of the Currency. UBS AG is registered as a swap dealer with the Commodity Futures Trading Commission (CFTC) and we expect to register as a security-based swap dealer with the Securities and Exchange Commission (SEC) when such registration becomes required.

UBS Americas Holding LLC – the intermediate holding company for our non-branch operations in the US, as required under the Dodd-Frank Act – is subject to requirements established by the Federal Reserve Board related to risk-based capital, liquidity, the Comprehensive Capital Analysis and Review stress testing and capital planning process, resolution planning and governance.

UBS Bank USA, a Federal Deposit Insurance Corporation-insured depository institution subsidiary, is licensed and regulated by state regulators in Utah.

UBS Financial Services Inc., UBS Securities LLC and several other US subsidiaries are subject to regulation by a number of different government agencies and self-regulatory organizations, including the SEC, the Financial Industry Regulatory Authority, the CFTC, the Municipal Securities Rulemaking Board and national securities exchanges, depending on the nature of their business.

Regulation and supervision in the UK

Our regulated operations in the UK are mainly subject to the authority of the Prudential Regulation Authority (PRA), which is part of the Bank of England, and the Financial Conduct Authority (FCA). We are also subject to the rules of the London Stock Exchange and other securities and commodities exchanges of which UBS AG is a member.

UBS AG and UBS Europe SE have UK-registered branches in London. UBS AG London Branch serves as a global booking center for our Investment Bank. In addition, our regulated subsidiaries in the UK that provide asset management services are authorized and regulated mainly by the FCA, with one entity being also subject to the authority of the PRA.

Regulation and supervision in Germany

With the transfer and merger of certain UBS Limited businesses into UBS's German-incorporated subsidiary UBS Europe SE, headquartered in Frankfurt, Germany, supervision of UBS Europe SE was transferred from the German Federal Financial Supervisory Authority (BaFin) to the European Central Bank. The entity is subject to EU and German laws and regulation. UBS Europe SE has branches in Austria, Denmark, France, Italy, Luxembourg, the Netherlands, Poland, Spain, Sweden, Switzerland, and the UK, and is subject to conduct supervision by authorities in all these countries.

Anti-money laundering and anti-corruption

Combating money laundering and terrorist financing has been a major focus of government policies relating to financial institutions in recent years. The US Bank Secrecy Act and other laws and regulations applicable to UBS require the maintenance of effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of our clients. Failure to maintain and implement adequate programs to prevent money laundering and terrorist financing could result in significant legal and reputation risk.

In addition, we are subject to laws and regulations, in jurisdictions in which we operate, prohibiting corrupt or illegal payments to government officials and others, including the US Foreign Corrupt Practices Act and the UK Bribery Act. We maintain policies, procedures and internal controls intended to comply with these regulations.

Data protection

We are subject to regulations concerning the use and protection of customer, employee, and other personal and confidential information. This includes provisions under Swiss law, the EU General Data Protection Regulation (GDPR) – which provides significant new data protection – and laws of other jurisdictions.

If implemented as proposed, we will become subject to the revised Swiss data protection law (Swiss Federal Act on Data Protection), which seeks to improve data protection for individuals by enhancing the transparency and accountability rules for companies processing data, among other measures. This would align Swiss data regulation with revised European legislation, including the GDPR, and is intended to ensure the equivalence necessary for the continued cross-border transmission of data. We expect the revised law to take effect in 2019.

→ **Refer to the “Risk factors” section of this report for more information on regulatory change**

Regulatory and legal developments

Switzerland

TBTF framework in Switzerland

In November 2018, the Swiss Federal Council adopted a revision of the Capital Adequacy Ordinance (CAO), which features the following elements: (i) gone concern capital requirements for the three Swiss domestic systemically important banks were set at 40% of the going concern capital requirements already in force; (ii) a risk-weighting approach was introduced for the treatment of systemically important banks' participations in their subsidiaries; and (iii) group entities that provide services necessary for the continuation of a bank's business processes, including UBS Business Solutions AG, will now be subject to consolidated supervision by the Swiss Financial Market Supervisory Authority (FINMA).

The Federal Council is expected to initiate a separate consultation in the first half of 2019 regarding potential revisions to the gone concern capital requirements at legal entity level for the two Swiss global systemically important banks, including UBS.

Separately, in December 2018, the Swiss Parliament approved changes to the tax treatment of too big to fail (TBTF) instruments issued by the holding companies of Swiss systemically important banks. The new law aims to eliminate the additional tax burden imposed on systemically important banks as a result of required issuances of TBTF instruments at the holding company level. In March 2019, the Federal Council determined that the rule would enter into force retroactively as of 1 January 2019. Going forward, we will issue new loss-absorbing additional tier 1 capital instruments and total loss-absorbing capacity (TLAC)-eligible senior unsecured debt directly out of UBS Group AG. We also expect UBS Group AG to assume outstanding capital and debt instruments that were previously issued by UBS Group Funding (Switzerland) AG as a means of managing the aforementioned tax burden.

Consultation on ordinance specifying FinSA

In October 2018, the Swiss government initiated a consultation on, among other items, the proposed Financial Services Ordinance (FinSO), which would specify the details of the Financial Services Act (FinSA). The act will come into force on 1 January 2020, as would the ordinances.

FinSO, together with FinSA and the Financial Institutions Act (FinIA), would introduce new investor protection rules, including significantly enhanced information and documentation requirements. We have begun preparing for implementation of the new rules.

EU equivalence for Swiss trading venues

In December 2018, the European Commission (EC) extended its equivalence decision for Swiss trading venues by six months, until the end of June 2019. The EC has stated that any further extension of its equivalence decision will be contingent upon the Federal Council's endorsement of a framework agreement.

If the EC does not extend recognition of Switzerland’s trading venues beyond June 2019, the Swiss contingency measure, which was adopted by the Swiss Federal Council in November 2018, would come into effect. The measure would introduce a new Swiss standard recognizing non-EU foreign trading venues that admit Swiss shares to trading, but disallowing trading in Swiss shares on EU trading venues. We would then be required to significantly alter our trading arrangements, for which UBS has taken the appropriate preparations. We expect that EU trading venues would comply with the Swiss measure, resulting in a shift of liquidity in shares issued in Switzerland from EU trading venues to Swiss trading venues.

Automatic exchange of information

In September 2018, as a consequence of the automatic exchange of information (AEI) introduced in Switzerland as of 1 January 2017, financial data was exchanged for the first time with the first 36 partner states to have signed an agreement for information exchange. On 1 January 2018, an additional 41 countries were added to Switzerland’s network of AEI partner states. Financial data is expected to be exchanged with them for the first time in 2019. Before the first transmission, these jurisdictions will be subject to a mandatory review by the Federal Council to ensure compliance with data exchange requirements. On 1 January 2019, the Swiss Parliament approved the introduction of the AEI with another 89 partner states, out of a total of 107 states that have committed to implementing the AEI. In December 2018, the Swiss government launched a consultation on AEI implementation with the remaining 18 partner states.

We have experienced outflows of cross-border client assets in connection with the AEI, as well as with other changes in tax regimes or their enforcement.

Adoption of Swiss corporate tax reform

In September 2018, the Swiss Parliament adopted corporate tax reform measures, previously known as Tax Proposal 17, that abolish preferential corporate tax treatment for holding companies and introduce a series of tax measures aligned to the Organisation for Economic Co-operation and Development (OECD) standards to maintain Switzerland's competitiveness as a business location. The measures include an optional relief on capital tax that compensates for the proposed elimination of the current preferential holding company capital tax rate. In addition, the cantonal share of direct federal tax revenue would increase, giving the cantons leeway to reduce their cantonal corporate income tax rate. The popular vote will take place on 19 May 2019 and, if the vote is successful, the reform will enter into force on 1 January 2020. The changes would increase our tax liability in Switzerland by a modest amount, which we expect to be largely offset by the changes in cantonal tax rates, if enacted.

Revision of AML regulation in Switzerland

In June 2018, the Swiss Federal Council initiated a consultation on amendments to the Anti-Money Laundering Act, aiming to implement the recommendations from the Financial Action Task Force's Mutual Evaluation Report of Switzerland. The consultation proposes changes to enhance due diligence obligations for certain services, beneficial owner verification, and monitoring and reporting of suspicious activities.

Implementation of these amendments may require changes to our client onboarding and ongoing compliance processes and may lead to increased costs. The precise effect on UBS depends on the final law, which is subject to parliamentary debate.

Developments related to cyber resilience in the financial system

In April 2018, the Swiss Federal Council adopted the national strategy for Switzerland's protection against cyber risks for 2018-2022. The financial sector is deemed a critical infrastructure and will be required to implement measures to strengthen its resilience in terms of cybersecurity and further enhance its cooperation with relevant public-sector bodies as a result of the national strategy.

Also in April 2018, the European Central Bank (ECB) consulted on its cyber resilience oversight expectations for financial market infrastructures (FMIs) and banks, based on global guidance by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions, aiming to address fragmentation of approaches, but stop short of imposing a single set of standards. In December 2018, the ECB finalized the FMI cyber resilience oversight expectations, thus providing FMIs with detailed steps on how to operationalize the guidance and reflecting the feedback from the consultation, in particular on the need for harmonization across different jurisdictions and among regulators to reduce the current fragmentation.

In November 2018, the Financial Stability Board (FSB) finalized its Cyber Lexicon, which comprises a set of approximately 50 core terms related to cybersecurity and cyber resilience in the financial sector. The lexicon is intended to support the work of the FSB, standard-setting bodies, authorities and private-sector participants.

In addition, in July 2018, the UK Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) published a joint discussion paper on an approach to improve the operational resilience of FMIs. Among other things, the paper envisages that boards and senior management can achieve better standards of operational resilience through increased focus on setting, monitoring and testing specific impact tolerances for key business services. Separately, the Basel Committee on Banking Supervision (BCBS) confirmed in its June 2018 update on the 2018–2019 work program that cyber risk and operational resilience remain priorities.

International

NSFR implementation

In November 2018, the Swiss Federal Council announced that it would consider finalization of the net stable funding ratio (NSFR) requirement at the end of 2019. The NSFR requirement, as originally proposed in 2017, could result in a significant increase in long-term funding requirements on a legal entity level.

In the EU, the political agreement on the Risk Reduction Measures package implies implementation of the NSFR in the first half of 2021. This is expected to apply at both consolidated and legal entity level, with the possibility for cross-border waivers at the legal entity level. There will be a four-year transitional period during which certain derivatives, repurchase and reverse repurchase agreements will receive lower required stable funding factors. UBS's EU entities are expected to be within the scope of the NSFR requirements, although at Group consolidated level UBS will be subject to the Swiss NSFR requirements, once implemented.

In the United States, the US Department of Treasury in its June 2017 Core Principles report recommended delaying the implementation of the NSFR until it can be appropriately calibrated and assessed. While the proposal has been outstanding for over two years, representatives of the US banking agencies have not indicated how this will be achieved, though comments provided earlier in 2018 indicated that the proposal was near finalization. While recent tailoring of prudential standards has indicated which US bank holding companies would be subject to the final rule, including a modified approach, it has not been clarified for US-based intermediate holding companies of foreign banks. Any difference between the US implementation and that applied by other jurisdictions could present competitive challenges for non-US banking organizations.

→ **Refer to "Liabilities and funding management" in the "Treasury management" section of this report for more information on the NSFR**

Adjustments to the market risk framework

In January 2019, the Basel Committee published final revisions of the market risk framework, which followed its fundamental review of the trading book and will serve as the Pillar 1 minimum capital requirement as of 1 January 2022. The revisions include adjustments to the risk sensitivity of the standardized approach and clarifications on the scope of application, amendments to the risk sensitivity of the standardized approach and to the internal models approach, in particular to the profit and loss attribution test and the non-modelable risk factors. We are currently assessing any potential effect on UBS.

Pillar 3 disclosure requirements revised

In December 2018, the BCBS published its updated Pillar 3 disclosure requirements, completing revisions to the disclosure framework started earlier. In particular, the revision reflects the final Basel III standards issued in December 2017. In addition, the updated framework sets out new disclosure requirements on asset encumbrance and, if required by national supervisors at the jurisdictional level, on capital distribution constraints.

The implementation deadline for the disclosure requirements related to Basel III is 1 January 2022. The effective date for the disclosure requirements for asset encumbrance, capital distribution constraints and the prudential treatment of problem assets is the end of 2020.

Basel Committee developments on the leverage ratio

The BCBS consulted on a targeted and limited revision of the leverage ratio’s treatment of client-cleared derivatives, outlining three options, two of which would recognize initial margin offset and could lead to a reduction of the Group leverage ratio denominator compared with Basel III requirements. The BCBS is also consulting on additional leverage ratio disclosure requirements to address leverage ratio window-dressing concerns, with proposed implementation no later than 1 January 2022.

EU Risk Reduction Measures package

The EU institutions reached political agreement on the Risk Reduction Measure legislative package, which will incorporate a number of Basel III reforms as well as the FSB TLAC standard into EU law. The agreement remains subject to final technical adjustments.

The package includes an internal TLAC requirement calibrated at 90% of the full Pillar 1 level for material subsidiaries of non-EU global systemically important banks. UBS Europe SE is likely to fall within this definition and is therefore expected to attract an internal TLAC requirement.

The measures also include a requirement for third-country banking groups with more than EUR 40 billion of assets to establish an intermediate EU parent undertaking (IPU). This will be subject to a three-year implementation period. We therefore expect implementation to be required by the first half of 2024. UBS expects to be within the scope of this requirement and to implement the necessary measures to comply with it.

The European Commission (EC) is expected to introduce new legislation by mid-2020 to turn these reporting requirements into binding capital requirements following finalization of the market risk standard. We therefore expect the EU to introduce binding capital requirements later than the effective date of the revised Basel III standards.

Finally, the measures introduce a new two-business-day pre-resolution moratorium tool, in addition to the existing tool established in the EU Bank Recovery and Resolution Directive. However, the rules as proposed will not permit the two tools to be used in combination, meaning the maximum length of a stay will remain two business days. While a pre-resolution tool diverges from international standards, the retention of the two-business-day maximum limits the effect of this change.

The legislative package is expected to receive final approval in the second quarter of 2019, with the majority of the measures being phased in from the first half of 2021.

Developments related to EU cross-border business

We expect finalization of the EU Investment Firm Review (IFR) during the first half of 2019. In addition to amending EU prudential rules for investment firms, the IFR is expected to update the Markets in Financial Instruments Directive II (MiFID II) equivalence framework. The final rules, once agreed, are likely to introduce further reporting obligations for third-country headquartered firms such as UBS on services provided within the EU alongside a more granular focus on the equivalence of third-country rules by EU regulators. Depending on final legislative discussions, it is possible that further restrictions on cross-border market access may be introduced. We are monitoring these developments closely to determine potential effects on our business activities.

We also expect finalization of revisions to the European Market Infrastructure Regulation in the first half of 2019, which would allow the EU to derecognize systemic third-country central clearing counterparties (CCPs) under certain conditions. Our EU-based entities, principally UBS Europe SE, can only hold exposures against those third-country CCPs that are recognized by the EU. While the EU is putting in place arrangements to ensure that, in the event of a no-deal Brexit, EU firms can continue to access UK CCPs for one year, we have developed contingency plans to ensure continuity of service for our EU clients should these arrangements lapse after 12 months.

UK withdrawal from the EU

We continue to prepare for the UK withdrawal from the EU in the expectation that the UK will leave the EU on 29 March 2019. Our plans are intended to ensure that we can continue to serve our clients in any scenario (including a scenario in which the UK leaves the EU without a binding withdrawal agreement).

As the effective date of the UK's withdrawal approaches, and given the political challenges of the UK ratification process, it appears increasingly likely that any transition arrangements may be significantly limited in scope, since the withdrawal agreement may only be agreed close to the exit date, if at all. Equally, it remains possible that the exit date may change.

On 1 March 2019, the previously announced combined UK business transfer and cross-border merger of UBS Limited into UBS Europe SE took place. Former clients and other counterparties of UBS Limited who can be serviced by UBS AG's London Branch were migrated to UBS AG's London Branch prior to the merger. As a result of this action, we expect no material effect on our ability to serve our clients as a result of the UK's withdrawal from the EU.

The EC has adopted an equivalence decision that permits the European Securities and Markets Authority (ESMA) to recognize UK-authorized CCPs such that they may continue to provide clearing services in the EU for one year in a no-deal scenario, effective from 30 March 2019. ESMA has announced that it aims to adopt the recognition decisions ahead of 29 March 2019. Once in place, these decisions would allow us to maintain derivatives exposures to UK CCPs in UBS Europe SE after the UK's withdrawal from the EU.

Developments related to the transition away from IBOR

The Swiss National Working Group on Swiss Franc Reference Rates (NWG) suggested a fallback clause (defining how the client interest rate is calculated under Swiss law in case the London Interbank Offered Rate (LIBOR) is discontinued permanently), to be used in retail and corporate loans. As of 1 November 2018, all of our new three-year LIBOR mortgages include a fallback clause. Regarding term rate, the Swiss NWG recommends using a compounded Swiss average rate overnight (SARON), wherever possible.

In December 2018, FINMA issued guidance on risks related to a potential replacement of the interbank offered rates (IBORs), outlining legal and valuation risks as well as risks related to operational readiness for supervised institutions.

In response to a request from UK regulators PRA and FCA in September 2018, we submitted a board-approved summary of our assessment of key risks relating to IBOR discontinuation and details of actions to mitigate those risks.

We have a substantial number of contracts linked to IBORs. The new risk-free alternative reference rates do not currently provide a term structure and will therefore require a change in the contractual terms of products currently indexed on terms other than overnight. We have established a cross-divisional, cross-regional governance structure and change program to address the scale and complexity of the transition.

EU Sustainable Finance Action Plan

In March 2018, the EC launched a Sustainable Finance Action Plan as the basis for a “greener” financial system in the form of 10 action points.

In May 2018, the EC adopted the first set of measures implementing several key points announced in its action plan. This included a proposal for a taxonomy on sustainable finance, which introduces disclosure obligations on how institutional investors and asset managers integrate environmental, social and governance (ESG) factors in their risk processes, and a proposal to create a new category of benchmarks comprising low carbon and positive carbon impact benchmarks, which would provide investors with better information on the carbon footprint of their investments. Other initiatives include seeking feedback on inclusions of ESG considerations into the advice that investment firms and insurance distributors offer to individual clients.

We are committed to creating long-term positive effects for our clients, employees, investors and society. In 2015, we established a cross-divisional organization, *UBS in society*, to help drive capital toward investments that support the achievement of the Sustainable Development Goals and the transition to a low-carbon economy.

→ **Refer to “Society” in the “How we create value for our stakeholders” section of this report for more information on UBS in society**

USA

Proposed BEAT regulations issued

In December 2018, the US Department of Treasury issued proposed regulations in connection with the base erosion and anti-abuse tax (BEAT), which was introduced into law as part of the Tax Cuts and Jobs Act in December 2017. BEAT is calculated on the basis of modified taxable income that includes an add back of otherwise tax-deductible payments made by a US taxpayer to non-US-related parties. BEAT applies in a given year to the extent that it is higher than the regular federal corporate tax for that same year. The proposed regulations clarify that payments made by a US entity to a non-US-related party are not subject to BEAT, provided the income from such payments is either taxable in the hands of the non-US-related party as US effectively connected income or the payment relates to the US minimum mandatory amount of TLAC instruments. Consistent with our previous guidance, and taking the proposed regulations into account, we do not expect to incur material BEAT expenses for the foreseeable future.

US Fed on tailoring of enhanced prudential standards

With the passage of the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA) in May 2018, the US banking agencies were required to implement a series of reforms relative to Section 165 of the Dodd-Frank Act that most notably dealt with resolution planning and enhanced prudential standards. While EGRRCPA was targeted at US bank holding companies and their subsidiary banks, the US regulators have begun efforts that may extend similar reforms to foreign banks' intermediate holding companies operating in the US. Of these reforms, the tailoring of enhanced prudential standards is the more important aspect. Such tailoring is expected to better align regulatory requirements such as capital and liquidity risk management and stress testing processes with the risk profile of our US-based activities, and would permit a more efficient allocation of capital and funding resources to our US operations.

Proposal to introduce stress capital buffer

In April 2018, the Federal Reserve Board issued a proposal to introduce a bank-specific stress capital buffer (SCB), which would replace the existing capital conservation buffer of 2.5% applicable to firms subject to the Comprehensive Capital Analysis and Review (CCAR) and would be applied to a firm's common equity tier 1 (CET1) and tier 1 leverage ratios based on the higher of 2.5% or the difference between the starting and minimum projected capital ratio levels over the nine-quarter projection period using the Federal Reserve Board's severely adverse scenario. Additionally, the Federal Reserve Board would no longer separately make quantitative objections to a covered firm's capital plans. While Federal Reserve Board principals have publicly expressed views that certain elements of the proposal would be delayed, the Federal Reserve Board has not re-issued a formal communication expressing such. Absent any further clarification on the proposal and planned tailoring of prudential standards for foreign banks, we expect UBS Americas Holding LLC, our US intermediate holding company, to be subject to the SCB and to remain a covered firm under the Federal Reserve Board's CCAR program.

Duties to customers in the US

In April 2018, the US Securities and Exchange Commission (SEC) proposed a new regulation and interpretation intended to enhance and clarify the duties of brokers and investment advisors to retail customers. The proposals would require broker-dealers and investment advisors to provide a new relationship summary to customers describing the relationship with the customers, the services offered, standards of conduct, fees and costs, conflicts of interest and disciplinary information. The new regulation would apply to broker-dealers and would require they act in a customer’s best interest when making an investment or investment strategy recommendation to a retail investor. The proposed interpretation clarifies certain obligations of investment advisors relating to acting in the best interest of clients, obtaining best execution of transactions, providing ongoing advice and monitoring, and disclosing and mitigating conflicts of interest. The proposed requirements, if adopted, would apply to a large portion of Global Wealth Management’s businesses in the US.

The proposals overlap with the US Department of Labor’s (DOL) fiduciary rule, which would have applied to retirement accounts, and would have been phased in through 2019. The DOL fiduciary rule was invalidated by a US court of appeals in March 2018.

Single-counterparty credit limits

In June 2018, the Federal Reserve Board finalized the single-counterparty credit limit (SCCL) rule to mitigate the concentrations of risk between large banking organizations and their counterparties from undermining financial stability. The rule will become effective in 2020. Under the rule, foreign banks with US banking operations and USD 250 billion or more in total global assets would be subject to the SCCL framework relative to their combined US operations and their intermediate holding companies (IHC) greater than USD 50 billion. With respect to UBS’s combined US operations, the rule allows for compliance with the SCCL rule with respect to its combined US operations by certifying to the Federal Reserve Board that it complies with a comparable home country regime, which for UBS would be the FINMA Circular “Risk diversification – banks,” which entered into force on 1 January 2019. For its IHC, UBS would be subject to a limit of aggregate net credit exposure to a counterparty of 25% of the IHC’s total regulatory capital plus the balance of its loan loss reserves not included in tier 2 capital. The IHC currently does not have any counterparty exposures that would exceed the required threshold.

Risk factors

Certain risks, including those described below, may affect our ability to execute our strategy or our business activities, financial condition, results of operations and prospects. We are inherently exposed to multiple risks, many of which may become apparent only with the benefit of hindsight. As a result, risks that we do not consider to be material or of which we are not currently aware could also adversely affect us. The order of presentation of the risk factors below does not indicate the likelihood of their occurrence or the potential magnitude of their consequences.

Market and macroeconomic risks

Performance in the financial services industry is affected by market conditions and the macroeconomic climate

Our businesses are materially affected by market and macroeconomic conditions. Adverse changes in interest rates, credit spreads, securities prices, market volatility and liquidity, foreign exchange rates, commodity prices, and other market fluctuations, as well as changes in investor sentiment, can affect our earnings and ultimately our financial and capital positions.

A market downturn and weak macroeconomic conditions can be precipitated by a number of factors, including geopolitical events, changes in monetary or fiscal policy, trade imbalances, natural disasters, pandemics, civil unrest, acts of violence, war or terrorism. Macroeconomic and political developments can have unpredictable and destabilizing effects and, because financial markets are global and highly interconnected, even local and regional events can have widespread effects well beyond the countries in which they occur. Moreover, if individual countries impose restrictions on cross-border payments or other exchange or capital controls, or change their currency (for example, if one or more countries should leave the eurozone), we could suffer losses from enforced default by counterparties, be unable to access our own assets, or be unable to effectively manage our risks.

We could be materially affected if a crisis develops, regionally or globally, as a result of disruptions in markets as a result of macroeconomic or political developments, or as a result of the failure of a major market participant. Over time, our strategic plans have become more heavily dependent on our ability to generate growth and revenue in emerging markets, including China, causing us to be more exposed to the risks associated with such markets.

We have material exposures to a number of markets, and our businesses have regional exposures and concentrations that differ from certain of our peers. Global Wealth Management derives revenues from all the principal regions, but has a greater concentration in Asia than many peers and a substantial presence in the US, unlike many European peers. The Investment Bank's Equities business is more heavily weighted to Europe and Asia than our peers, and within this business its derivatives business is more heavily weighted to structured products for wealth management clients, in particular with European and Asian underlyings. Our performance may therefore be more affected by political, economic and market developments in these regions and businesses than some other financial service providers.

A decrease in business and client activity and market volumes, for example, as a result of significant market volatility, adversely affects transaction fees, commissions and margins, particularly in Global Wealth Management and the Investment Bank, as we experienced in the fourth quarter of 2018 and in 2016. A market downturn is likely to reduce the volume and valuations of assets that we manage on behalf of clients, which would reduce recurring fee income that is charged based on invested asset and performance-based fees in Asset Management. Such a downturn may also cause a decline in the value of assets that we own and account for as investments or trading positions. On the other hand, reduced market liquidity or volatility may limit trading opportunities and may therefore reduce transaction-based fees and may also impede our ability to manage risks.

In addition, the implementation of the expected credit loss (ECL) regime, as required by IFRS 9, is intended to result in fewer pro-cyclical charges for credit impairment by ensuring that impairment charges would be recognized earlier through anticipating a downturn using appropriate forward-looking measures and, conversely, an expected positive development once the trough of a downturn has been reached. There is a material risk that these expectations will not materialize, and that ECL under IFRS 9 will prove to be pro-cyclical. Provision requirements under IFRS 9 may in practice increase rapidly at the onset of an economic downturn as a result of higher levels of credit impairment (stage 3) as well as higher ECL from stages 1 and 2, only gradually diminishing once the economic outlook improves. Substantial increases in ECL could exceed expected loss for regulatory capital purposes and adversely affect our common equity tier 1 (CET1) capital and regulatory capital ratios. The effect of pro-cyclical ECL requirements will be assessed in our stress testing outputs.

We are exposed to the credit risk of our clients, trading counterparties and other financial institutions

Credit risk is an integral part of many of our activities, including lending, underwriting and derivatives activities. Failure to properly assess and manage credit risk or adverse economic or market conditions may lead to impairments and defaults on credit exposures. Losses may be exacerbated by declines in the value of collateral securing loans and other exposures. In our prime brokerage, securities finance and Lombard lending businesses we extend substantial amounts of credit against securities collateral, the value or liquidity of which may decline rapidly. Our Swiss mortgage and corporate lending portfolios are a large part of our overall lending. We are therefore exposed to the risk of adverse economic developments in Switzerland, including the strength of the Swiss franc and its effect on Swiss exports, prevailing negative interest rates by the Swiss National Bank, economic conditions within the eurozone or the EU, and the evolution of agreements between Switzerland and the EU and European Economic Area, which represent Switzerland's largest export market.

The aforementioned developments have in the past affected, and going forward could materially affect, our overall financial performance and the financial performance of our individual businesses.

Market conditions and fluctuations may have a detrimental effect on our profitability, capital strength, liquidity and funding position

Low and negative interest rates in Switzerland and the eurozone have negatively affected our net interest income

A continuing low or negative interest rate environment may further erode interest margins and adversely affect the net interest income generated by the Personal & Corporate Banking and Global Wealth Management businesses. Our performance is also affected by the cost of maintaining the high-quality liquid assets required to cover regulatory outflow assumptions embedded in the liquidity coverage ratio.

The Swiss National Bank permits Swiss banks to make deposits up to a threshold at zero interest. Any reduction in or limitations on the use of this exemption from the otherwise applicable negative interest rates could exacerbate the effect of negative interest rates in Switzerland. Low and negative interest rates may also affect customer behavior and hence our overall balance sheet structure. Mitigating actions that we have taken, or may take in the future, such as the introduction of selective deposit fees or minimum lending rates, have resulted and may further result in the loss of customer deposits (a key source of funding for us), net new money outflows and a declining market share in our Swiss lending business.

Our shareholders' equity and capital are also affected by changes in interest rates. In particular, the calculation of our Swiss pension plan's net defined benefit assets and liabilities is sensitive to the discount rate applied and to fluctuations in the value of pension plan assets. Any further reduction in interest rates may lower the discount rates and result in pension plan deficits as a result of the long duration of corresponding liabilities. This could lead to a corresponding reduction in our equity and common equity tier 1 capital.

Currency fluctuation

We are subject to currency fluctuation risks. Effective 1 October 2018, 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, we have changed the presentation currency of UBS Group AG's and UBS AG's consolidated financial statements from Swiss francs to US dollars effective from our fourth quarter 2018 reporting. Although this change reduces our exposure to currency fluctuation risks against Swiss francs, a substantial portion of our assets and liabilities are denominated in currencies other than the US dollar. Accordingly, changes in foreign exchange rates may continue to adversely affect our profits, balance sheet and capital leverage and liquidity coverage ratios.

In order to hedge our CET1 capital ratio, our CET1 capital must have foreign currency exposure, which leads to currency sensitivity. As a consequence, it is not possible to simultaneously fully hedge both the amount of capital and the capital ratio. Our change to the US dollar as our presentation currency has reduced, but not eliminated the exposure of our CET1 capital and capital ratios to currency fluctuations.

Regulatory and legal risks

Substantial changes in the regulation may adversely affect our businesses and our ability to execute our strategic plans

Fundamental changes in the laws and regulations affecting financial institutions can have a material and adverse effect on our business. Following the 2007–2009 financial crisis, regulators and legislators have adopted a wide range of changes to the laws, regulations and supervisory frameworks applicable to banks. The changes are intended to address the perceived causes of the crisis and to limit the systemic risks posed by major financial institutions. They have caused us to make significant changes in our businesses, strategy and legal structure. We have moved significant operations into subsidiaries to improve resolvability and meet other regulatory requirements, and this has resulted in substantial implementation costs, increased our capital and funding costs and reduced operational flexibility. Although many of the regulatory changes have been completed, some continue to be phased in over time or require further rulemaking or guidance for implementation, and other changes are still under consideration.

Notwithstanding attempts by regulators to align their efforts, the measures adopted or proposed differ significantly across the major jurisdictions, making it increasingly difficult to manage a global institution. Swiss regulatory changes with regard to such matters as capital and liquidity have often proceeded more quickly than those in other major jurisdictions, and Switzerland's requirements for major international banks are among the strictest of the major financial centers. This could put Swiss banks such as UBS at a disadvantage when competing with peer financial institutions subject to more lenient regulation or with unregulated non-bank competitors.

Banking structure and activity limitations: We have made significant changes to our legal and operational structure to meet legal and regulatory requirements and expectations. For example, we have transferred all of our US subsidiaries under a US intermediate holding company to meet US regulatory requirements, and have transferred substantially all the operations of Personal & Corporate Banking and Global Wealth Management booked in Switzerland to UBS Switzerland AG, to improve resolvability. These changes, particularly the transfer of operations to subsidiaries, require significant time and resources to implement, and create operational, capital, liquidity, funding and tax inefficiencies. In addition, they may increase our aggregate credit exposure to counterparties as they transact with multiple entities within the Group. Further, our operations in subsidiaries are subject to local capital, liquidity, stable funding, capital planning and stress testing requirements. These requirements have resulted in increased capital and liquidity requirements in affected subsidiaries, which limit our operational flexibility and negatively affects our ability to benefit from synergies between business units and to distribute earnings to the Group.

We have incurred substantial costs in implementing a compliance and monitoring framework in connection with the Volcker Rule under the Dodd-Frank Act and have modified our business activities both inside and outside the US to conform to the Volcker Rule's activity limitations. We may incur additional costs in the short term if aspects of the Volcker Rule are modified in ways that would require changes to the operation of our Volcker compliance program, even if those changes may reduce the long-term burden on our operations. We may also become subject to other similar regulations substantively limiting the types of activities in which we may engage or the way we conduct our operations.

Higher capital and total loss-absorbing capacity requirements increase our costs: As an internationally active Swiss systemically relevant bank (SRB), we are subject to capital and total loss-absorbing capacity (TLAC) requirements that are among the most stringent in the world.

We expect our risk-weighted assets (RWA) to increase in 2019 as a result of changes in methodology and add-ons in the calculation of RWA, as well as implementation of new accounting standards. Changes to international capital standards for banks recently adopted by the Basel Committee on Banking Supervision are expected to further increase our RWA when the standards are scheduled to become effective in 2022.

Resolvability and resolution and recovery planning: Under the Swiss too big to fail (TBTF) framework, we are required to put in place viable emergency plans to preserve the operation of systemically important functions in the event of a failure. Moreover, under this framework and similar regulations in the US, the UK, the EU and other jurisdictions in which we operate, we are required to prepare credible recovery and resolution plans detailing the measures that would be taken to recover in the event of a significant adverse event or to wind down the Group or the operations in a host country through resolution or insolvency proceedings. If a recovery or resolution plan we produce is determined by the relevant authority to be inadequate or not credible, relevant regulation may permit the authority to place limitations on the scope or size of our business in that jurisdiction, or oblige us to hold higher amounts of capital or liquidity or to change our legal structure or business in order to remove the relevant impediments to resolution.

The Swiss Banking Act and implementing ordinances provide the Swiss Financial Market Supervisory Authority (FINMA) with significant powers to intervene in order to prevent a failure of, or to resolve, a failing financial institution. FINMA has considerable discretion in determining whether, when, or in what manner to exercise such powers. In case of a threatened insolvency, FINMA may impose more onerous requirements on us, including restrictions on the payment of dividends and interest. FINMA could also directly or indirectly require us, for example, to alter our legal structure, including by separating lines of business into dedicated entities, with limitations on intra-Group funding and certain guarantees, or to further reduce business risk levels in some manner. FINMA also has the ability to write down or convert into common equity the capital instruments and other liabilities of UBS Group AG, UBS AG and UBS Switzerland AG in connection with a resolution.

Substantial changes in market regulation have affected and will continue to affect how we conduct our business: The revised Markets in Financial Instruments Directive (MiFID II) became effective in 2018. MiFID II, among other things, introduces substantial new regulation of exchanges and trading venues, including new pre-trade and post-trade transparency requirements, a ban on the practice of using commissions on transactions to compensate for research services and substantial new conduct requirements for financial services firms when dealing with clients. Implementation by the G20 countries of the commitment to require all standardized over-the-counter (OTC) derivative contracts to be traded on exchanges or trading facilities and cleared through central counterparties has had and will continue to have a significant effect on our OTC derivatives business, which is conducted primarily in the Investment Bank. These market changes are likely to reduce the revenue potential of certain lines of business for market participants generally, including UBS. For example, the changes introduced by MiFID II appear to have reduced commission rates and trading margins; these reductions may not be fully offset by charges for research services. Also, these changes may have a material effect on the market infrastructure that we use and the way we interact with clients, and may result in additional material implementation costs.

Some of the regulations applicable to UBS AG as a registered swap dealer with the Commodity Futures Trading Commission (CFTC) in the US, and certain regulations that will be applicable when UBS AG registers as a security-based swap dealer with the US Securities and Exchange Commission (SEC), apply to UBS AG globally, including those relating to swap data reporting, record-keeping, compliance and supervision. As a result, in some cases US rules duplicate or may conflict with legal requirements applicable to us elsewhere, including in Switzerland, and may place us at a competitive disadvantage to firms that are not required to register in the US with the SEC or CFTC.

In many instances, we provide services on a cross-border basis, and we are therefore sensitive to barriers restricting market access for third-country firms. In particular, efforts in the EU to harmonize the regime for third-country firms to access the European market may have the effect of creating new barriers that adversely affect our ability to conduct business in these jurisdictions from Switzerland. In addition, a number of jurisdictions are increasingly regulating cross-border activities based on determinations of equivalence of home country regulation, substituted compliance or similar principles of comity. A negative determination could limit our access to the market in those jurisdictions and may negatively influence our ability to act as a global firm. For example, the EU has provided only a temporary equivalence determination for Swiss exchanges, which has caused Switzerland to adopt regulations that may result in limitations on trading Swiss listed securities on EU markets. In addition, as such determinations are typically applied on a jurisdictional level rather than on an entity level, we will generally need to rely on jurisdictions' willingness to collaborate.

Material legal and regulatory risks arise in the conduct of our business

As a global financial services firm operating in more than 50 countries, we are subject to many different legal, tax and regulatory regimes, including extensive regulatory oversight, and exposed to significant liability risk. We are subject to a large number of claims, disputes, legal proceedings and government investigations, and we expect that our ongoing business activities will continue to give rise to such matters in the future. The extent of our financial exposure to these and other matters is material and could substantially exceed the level of provisions that we have established. We are not able to predict the financial and non-financial consequences these matters may have when resolved.

We may be subject to adverse preliminary determinations or court decisions that may negatively affect public perception and our reputation, result in prudential actions from regulators, and cause us to record additional provisions for the matter even when we believe we have substantial defenses and expect to ultimately achieve a more favorable outcome. This risk is illustrated by the award of aggregate penalties and damages of EUR 4.5 billion by the court in France.

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 them. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material adverse consequences for us.

Our settlements with governmental authorities in connection with foreign exchange, London Interbank Offered Rates (LIBOR) and other benchmark interest rates starkly illustrate the significantly increased level of financial and reputational risk now associated with regulatory matters in major jurisdictions. In connection with investigations related to LIBOR and other benchmark rates and to foreign exchange and precious metals, very large fines and disgorgement amounts were assessed against us, and we were required to enter guilty pleas despite our full cooperation with the authorities in the investigations, and despite our receipt of conditional leniency or conditional immunity from antitrust authorities in a number of jurisdictions, including the US and Switzerland.

Ever since our material losses arising from the 2007–2009 financial crisis, we have been subject to a very high level of regulatory scrutiny and to certain regulatory measures that constrain our strategic flexibility. While we believe we have remediated the deficiencies that led to those losses as well as to the unauthorized trading incident announced in September 2011, the effects on our reputation, as well as on relationships with regulatory authorities of the LIBOR-related settlements of 2012 and settlements with some regulators of matters related to our foreign exchange and precious metals business, have resulted in continued scrutiny.

We are also subject to significant new regulatory requirements, including recovery and resolution planning, US enhanced prudential standards and Comprehensive Capital Analysis and Review. Our implementation of additional regulatory requirements and changes in supervisory standards, as well as our compliance with existing laws and regulations, continue to receive heightened scrutiny from supervisors. If we do not meet supervisory expectations in relation to these or other matters, or if additional supervisory or regulatory issues arise, we would likely be subject to further regulatory scrutiny as well as measures that might further constrain our strategic flexibility. We are in active dialog with regulators concerning the actions we are taking to improve our operational risk management, control, anti-money laundering, data management and other frameworks, and otherwise seek to meet supervisory expectations, but there can be no assurance that our efforts will have the desired effects. As a result of this history, our level of risk with respect to regulatory enforcement may be greater than that of some of our peers.

The effect of taxes on our financial results is significantly influenced by tax law changes and reassessments of our deferred tax assets

Our effective tax rate is highly sensitive to our performance, our expectation of future profitability and statutory tax rates. Based on prior years' tax losses, we have recognized deferred tax assets (DTAs) reflecting the probable recoverable level based on future taxable profit as informed by our business plans. If our performance is expected to produce diminished taxable profit in future years, particularly in the US, we may be required to write down all or a portion of the currently recognized DTAs through the income statement in excess of anticipated amortization. This would have the effect of increasing our effective tax rate in the year in which any write-downs are taken. Conversely, if we expect the performance of entities in which we have unrecognized tax losses to improve, particularly in the US or the UK, we could potentially recognize additional DTAs. The effect of doing so would be to reduce our effective tax rate in years in which additional DTAs are recognized and to increase our effective tax rate in future years. Our effective tax rate is also sensitive to any future reductions in statutory tax rates, particularly in the US and Switzerland, which would cause the expected future tax benefit from items such as tax loss carry-forwards in the affected locations to diminish in value. This in turn would cause a write-down of the associated DTAs. For example, the reduction in the US federal corporate tax rate to 21% from 35% introduced by the US Tax Cuts and Jobs Act (TCJA) resulted in a USD 2.9 billion net write-down in the Group's DTAs in the fourth quarter of 2017.

We generally revalue our DTAs in the fourth quarter of the financial year based on a reassessment of future profitability taking into account our updated business plans. We consider the performance of our businesses and the accuracy of historical forecasts, tax rates and other factors in evaluating the recoverability of our DTAs, including the remaining tax loss carry-forward period and our assessment of expected future taxable profits over the life of DTAs. Estimating future profitability is inherently subjective and is particularly sensitive to future economic, market and other conditions, which are difficult to predict.

Our results in recent periods have demonstrated that changes in the recognition of DTAs can have a very significant effect on our reported results. Any future change in the manner in which UBS remeasures DTAs could affect UBS's effective tax rate, particularly in the year in which the change is made.

Our full-year effective tax rate could change if aggregate tax expenses in respect of profits from branches and subsidiaries without loss coverage differ from what is expected. In particular, losses at entities that cannot be offset for tax purposes by net operating losses may increase our effective tax rate. Moreover, tax laws or the tax authorities in countries where we have undertaken legal structure changes may prevent the transfer of tax losses incurred in one legal entity to newly organized or reorganized subsidiaries or affiliates or may impose limitations on the utilization of tax losses that relate to businesses formerly conducted by the transferor. Were this to occur in situations where there were also limited planning opportunities to utilize the tax losses in the originating entity, the DTAs associated with such tax losses may be required to be written down through the income statement.

Changes in tax law may materially affect our effective tax rate and in some cases may substantially affect the profitability of certain activities. In addition, statutory and regulatory changes, as well as changes to the way in which courts and tax authorities interpret tax laws including assertions that we are required to pay taxes in a jurisdiction as a result of activities connected to that jurisdiction constituting a permanent establishment or similar theory, and changes in our assessment of uncertain tax positions, could cause the amount of taxes we ultimately pay to materially differ from the amount accrued.

Discontinuance of, or changes to, benchmark rates may require adjustments to our agreements with clients and other market participants, as well as to our systems and processes

Since April 2013, the UK Financial Conduct Authority (FCA) has regulated LIBOR and regulators in other jurisdictions have increased oversight of other interbank offered rates (IBORs) and similar benchmark rates. Efforts to transition from IBORs to alternative benchmark rates are underway in several jurisdictions. The FCA announced in July 2017 that it will not continue beyond 2021 to regulate LIBOR or take other actions to sustain LIBOR, and urged users to plan the transition to alternative reference rates. As a result, there can be no guarantee that LIBOR will be determined after 2021 on the same basis as at present, if at all.

In the third quarter of 2018, the private-sector working group on euro risk-free rates recommended ESTER (euro short-term rate) as the replacement for EONIA (Euro OverNight Index Average), which will be prohibited by the EU Benchmark Regulation after 1 January 2020. Futures contracts referenced to the Secured Overnight Financing Rate (SOFR), the recommended successor to US dollar LIBOR, have begun trading on the Chicago Mercantile Exchange. The Bank of England consulted on the development of Term SONIA (Sterling Overnight Index Average) Reference Rates, which are expected to become available in the second half of 2019. The International Swaps and Derivatives Association, as part of a Financial Conduct Authority (FCA) mandate, consulted on preferred options for LIBOR transition fallbacks for derivatives. The FCA and the Prudential Regulation Authority have written to the CEOs of banks and insurance companies in the UK, including us, seeking assurance that senior managers and boards understand the risks associated with the transition away from IBORs and are taking appropriate preparatory action to transition to alternative rates before the end of 2021. In July 2018, the International Swaps and Derivatives Association launched a market-wide consultation on technical issues related to new benchmark fallbacks for derivatives contracts that reference certain IBORs.

We have a substantial number of contracts linked to IBORs. The new risk-free alternative reference rates do not provide a term structure and will therefore require a change in the contractual terms of products currently indexed on terms other than overnight. In some cases contracts may contain provisions intended to provide a fall-back interest rate in the event of a brief unavailability of the relevant IBOR. These provisions may not be effective or may produce arbitrary results in the event of a permanent cessation of the relevant IBOR. In addition, numerous of our internal systems, limits and processes make use of IBORs as reference rates. Transition to replacement reference rates will require significant effort.

UK withdrawal from the EU

We have planned our response to the UK withdrawal from the EU assuming that the UK will leave the EU in March 2019 and that any transition arrangements will only become legally binding close to the exit date. Given the continuing uncertainty on transition arrangements and the potential future restrictions on providing financial services into the EU from the UK, we have completed the merger of UBS Limited, our UK-based subsidiary, into UBS Europe SE, a German-headquartered European subsidiary. As a result, we expect that UBS Europe SE will become subject to direct supervision by the European Central Bank.

Clients and counterparties of UBS Limited who can be serviced by UBS AG, London Branch following the exit of the UK from the EU have generally been migrated to that branch. The remaining clients and other counterparties of UBS Limited were transferred to UBS Europe SE upon completion of a UK business transfer proceeding on 1 March 2019 and the merger of the two entities.

In connection with the merger, a small number of roles are being relocated from the UK to other European locations. We also expect to increase the loss-absorbing capacity of UBS Europe SE to reflect the additional activities it would acquire.

If we experience financial difficulties, FINMA has the power to open restructuring or liquidation proceedings or impose protective measures in relation to UBS Group AG, UBS AG or UBS Switzerland AG, and such proceedings or measures may have a material adverse effect on our shareholders and creditors

Under the Swiss Banking Act, FINMA is able to exercise broad statutory powers with respect to Swiss banks and Swiss parent companies of financial groups, such as UBS Group AG, UBS AG and UBS Switzerland AG, if there is justified concern that the entity is over-indebted, has serious liquidity problems or, after the expiration of any relevant deadline, no longer fulfils capital adequacy requirements. Such powers include ordering protective measures, instituting restructuring proceedings (and exercising any Swiss resolution powers in connection therewith), and instituting liquidation proceedings, all of which may have a material adverse effect on our shareholders and creditors or may prevent UBS Group AG, UBS AG or UBS Switzerland AG from paying dividends or making payments on debt obligations.

Protective measures may include, but are not limited to, certain measures that could require or result in a moratorium on, or the deferment of, payments. We would have limited ability to challenge any such protective measures, and creditors and shareholders would have no right under Swiss law or in Swiss courts to reject them, seek their suspension, or challenge their imposition, including measures that require or result in the deferment of payments.

If restructuring proceedings are opened with respect to UBS Group AG, UBS AG or UBS Switzerland AG, the resolution powers that FINMA may exercise include the power to (i) transfer all or some of the assets, debt and other liabilities, and contracts of the entity subject to proceedings to another entity, (ii) stay for a maximum of two business days a. the termination of, or the exercise of rights to terminate, netting rights, b. rights to enforce or dispose of certain types of collateral or c. rights to transfer claims, liabilities or certain collateral, under contracts to which the entity subject to proceedings is a party, and / or (iii) partially or fully write down the equity capital and, if such equity capital is fully written down, convert into equity or write down the capital and other debt instruments of the entity subject to proceedings. Shareholders and creditors would have no right to reject, or to seek the suspension of, any restructuring plan pursuant to which such resolution powers are exercised. They would have only limited rights to challenge any decision to exercise resolution powers or to have that decision reviewed by a judicial or administrative process or otherwise.

Upon full or partial write-down of the equity and debt of the entity subject to restructuring proceedings, the relevant shareholders and creditors would receive no payment in respect of the equity and debt that is written down, the write-down would be permanent, and the investors would not, at such time or at any time thereafter, receive any shares or other participation rights, or be entitled to any write-up or any other compensation in the event of a potential recovery of the debtor. If FINMA orders the conversion of debt of the entity subject to restructuring proceedings into equity, the securities received by the investors may be worth significantly less than the original debt and may have a significantly different risk profile, and such conversion would also dilute the ownership of existing shareholders. In addition, creditors receiving equity would be effectively subordinated to all creditors of the restructured entity in the event of a subsequent winding up, liquidation or dissolution of the restructured entity, which would increase the risk that investors would lose all or some of their investment.

FINMA has significant discretion in the exercise of its powers in connection with restructuring proceedings. Furthermore, certain categories of debt obligations, such as certain types of deposits, are subject to preferential treatment. As a result, holders of obligations of an entity subject to a Swiss restructuring proceeding may have their obligations written down or converted into equity even though obligations ranking on par with or junior to such obligations are not written down or converted.

FINMA has expressed its preference for a single-point-of-entry resolution strategy for global systemically important financial groups, led by the bank's home supervisory and resolution authorities and focused on the top-level group company. This would mean that, if UBS AG or one of UBS Group AG's other subsidiaries faces substantial losses, FINMA could open restructuring proceedings with respect to UBS Group AG only and order a bail-in of its liabilities if there is a justified concern that in the near future such losses could affect UBS Group AG. In that case, it is possible that the obligations of UBS AG or any other subsidiary of UBS Group AG would remain unaffected and outstanding, while the equity capital and the capital and other debt instruments of UBS Group AG would be written down and / or converted into equity of UBS Group AG in order to recapitalize UBS AG or such other subsidiary.

Liquidity risks

Liquidity and funding management are critical to our ongoing performance

The viability of our business depends on the availability of funding sources, and our success depends on our ability to obtain funding at times, in amounts, for tenors and at rates that enable us to efficiently support our asset base in all market conditions. Our funding sources have generally been stable, but could change in the future because of, among other things, general market disruptions or widening credit spreads, which could also influence the cost of funding. A substantial part of our liquidity and funding requirements are met using short-term unsecured funding sources, including retail and wholesale deposits and the regular issuance of money market securities. A change in the availability of short-term funding could occur quickly.

Moreover, more stringent capital and liquidity and funding requirements will likely lead to increased competition for both secured funding and deposits as a stable source of funding, and to higher funding costs. The addition of loss-absorbing debt as a component of capital requirements, the regulatory requirements to maintain minimum TLAC at our holding company and at subsidiaries, as well as the power of resolution authorities to bail in TLAC and other debt obligations, and uncertainty as to how such powers will be exercised, will increase our cost of funding and could potentially increase the total amount of funding required, in the absence of other changes in our business.

Reductions in our credit ratings may adversely affect the market value of the securities and other obligations and increase our funding costs, in particular with regard to funding from wholesale unsecured sources, and could affect the availability of certain kinds of funding. In addition, as we experienced in connection with Moody's downgrade of our long-term debt rating in June 2012, rating downgrades can require us to post additional collateral or make additional cash payments under trading agreements. Our credit ratings, together with our capital strength and reputation, also contribute to maintaining client and counterparty confidence, and it is possible that rating changes could influence the performance of some of our businesses.

Liquidity and funding: The requirement to maintain a liquidity coverage ratio of high-quality liquid assets to estimated stressed short-term net cash outflows, the proposed requirement to maintain a net stable funding ratio, and other similar liquidity and funding requirements, oblige us to maintain high levels of overall liquidity, limit our ability to optimize interest income and expense, make certain lines of business less attractive and reduce our overall ability to generate profits. The liquidity coverage ratio and net stable funding ratio requirements are intended to ensure that we are not overly reliant on short-term funding and that we have sufficient long-term funding for illiquid assets. The relevant calculations make assumptions about the relative likelihood and amount of outflows of funding and available sources of additional funding in market-wide and firm-specific stress situations. There can be no assurance that in an actual stress situation our funding outflows would not exceed the assumed amounts. Moreover, many of our subsidiaries must comply with minimum capital, liquidity and similar requirements and as a result UBS Group AG and UBS AG have contributed a significant portion of their capital and provide substantial liquidity to these subsidiaries. These funds are available to meet funding and collateral needs in the relevant entities, but are generally not readily available for use by the Group as a whole.

Strategy, management and operations risks

We may not be successful in the ongoing execution of our strategic plans

Over the last seven years, we have transformed our business to focus on our Global Wealth Management business and our universal bank in Switzerland, complemented by Asset Management and a significantly smaller and more capital efficient Investment Bank; we have substantially reduced the risk-weighted assets and leverage ratio denominator usage in Corporate Center – Non-core and Legacy Portfolio; and made significant cost reductions. We have recently provided an update on the execution of our strategy, updated our performance targets and provided guidance on capital and resources. Risk remains that we may not succeed in executing our strategy or achieving our performance targets, or may be delayed in doing so. Market events or other factors may adversely affect our ability to achieve our objectives. Macroeconomic conditions, geopolitical uncertainty, changes to regulatory requirements and the continuing costs of meeting these requirements have prompted us to adapt our targets and ambitions in the past and we may need to do so again in the future.

To achieve our strategic plans, we expect to continue to make significant expenditures on technology and infrastructure to improve client experience, improve and further enable digital offerings and increase efficiency. Our investments in new technology may not fully achieve our objectives or improve our ability to attract and retain customers. In addition, we will likely face competition in providing digitally enabled offerings from both existing competitors and new financial service providers in various portions of the value chain. Our ability to develop and implement competitive digitally enabled offerings and processes will be an important factor in our ability to compete.

As part of our strategy, we seek to improve our operating efficiency, in part by controlling our costs. We may not be able to identify feasible cost reduction opportunities that are consistent with our business goals and cost reductions may be realized later or may be smaller than we anticipate. Higher temporary and permanent regulatory costs and higher business demand than anticipated have partly offset cost reductions and delayed the achievement of our past cost reduction targets, and we could continue to be challenged in the execution of our ongoing efforts to improve operating efficiency.

Changes in our workforce as a result of outsourcing, nearshoring, offshoring, insourcing or staff reductions may introduce new operational risks that, if not effectively addressed, could affect our ability to achieve cost and other benefits from such changes, or could result in operational losses. Such changes can also lead to expenses recognized in the income statement well in advance of the cost savings intended to be achieved through such workforce strategy; for example, if provisions for real estate lease contracts need to be recognized, or when, in connection with the closure or disposal of non-profitable operations, foreign currency translation losses previously recorded in other comprehensive income are reclassified to the income statement.

As we implement effectiveness and efficiency programs, we may also experience unintended consequences, such as the unintended loss or degradation of capabilities that we need in order to maintain our competitive position, achieve our targeted returns or meet existing or new regulatory requirements and expectations.

Operational risks affect our business

Our businesses depend on our ability to process a large number of transactions, many of which are complex, across multiple and diverse markets in different currencies, to comply with requirements of many different legal and regulatory regimes to which we are subject and to prevent, or promptly detect and stop, unauthorized, fictitious or fraudulent transactions. We also rely on access to, and on the functioning of, systems maintained by third parties, including clearing systems, exchanges, information processors and central counterparties. Any failure of our or third-party systems could have an adverse effect on us. Our operational risk management and control systems and processes are designed to help ensure that the risks associated with our activities - including those arising from process error, failed execution, misconduct, unauthorized trading, fraud, system failures, financial crime, cyberattacks, breaches of information security, inadequate or ineffective access controls and failure of security and physical protection - are appropriately controlled. If our internal controls fail or prove ineffective in identifying and remedying these risks, we could suffer operational failures that might result in material losses, such as the substantial loss we incurred from the unauthorized trading incident announced in September 2011.

We and other financial services firms have been subject to breaches of security and to cyber- and other forms of attack, some of which are sophisticated and targeted attacks intended to gain access to confidential information or systems, disrupt service or destroy data. These attacks may be attempted through the introduction of viruses or malware, phishing and other forms of social engineering, distributed denial of service attacks and other means. These attempts may occur directly, or using equipment or security passwords of our employees, third party service providers or other users. In addition to external attacks, we have experienced loss of client data from failure by employees and others to follow internal policies and procedures and from misappropriation of our data by employees and others. We may not be able to anticipate, detect or recognize threats to our systems or data and our preventative measures may not be effective to prevent an attack or a security breach. In the event of a security breach notwithstanding our preventative measures, we may not immediately detect a particular breach or attack. Once a particular attack is detected, time may be required to investigate and assess the nature and extent of the attack. A successful breach or circumvention of security of our systems or data could have significant negative consequences for us, including disruption of our operations, misappropriation of confidential information concerning us or our customers, damage to our systems, financial losses for us or our customers, violations of data privacy and similar laws, litigation exposure and damage to our reputation.

We are subject to complex and frequently changing laws and regulations governing the protection of client and personal data, such as the EU General Data Privacy Regulation. Ensuring that we comply with applicable laws and regulations when we collect, use and transfer personal information requires substantial resources and may affect the ways in which we conduct our business. In the event that we fail to comply with applicable laws, we may be exposed to regulatory fines and penalties and other sanctions. We may also incur such penalties if our vendors or other service providers or clients or counterparties fail to comply with these laws or to maintain appropriate controls over protected data. In addition, any loss or exposure of client or other data, may adversely damage our reputation and adversely affect our business.

A major focus of US and other countries' governmental policies relating to financial institutions in recent years has been on fighting money laundering and terrorist financing. We are required to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of our clients under the laws of many of the countries in which we operate. We are also subject to laws and regulations related to corrupt and illegal payments to government officials by others, such as the US Foreign Corrupt Practices Act and the UK Bribery Act. We have implemented policies, procedures and internal controls that are designed to comply with such laws and regulations. Notwithstanding this, US regulators have found deficiencies in the design and operation of anti-money laundering programs in our US operations. We have undertaken a significant program to address these regulatory findings with the objective of fully meeting regulatory expectations for our programs. Failure to maintain and implement adequate programs to combat money laundering, terrorist financing or corruption, or any failure of our programs in these areas, could have serious consequences both from legal enforcement action and from damage to our reputation. Frequent changes in sanctions imposed and increasingly complex sanctions imposed on countries, entities and individuals increase our cost of monitoring and complying with sanctions requirements and increase the risk that we will not timely identify previously permissible client activity that is subject to a sanction.

As a result of new and changed regulatory requirements and the changes we have made in our legal structure, the volume, frequency and complexity of our regulatory and other reporting has significantly increased. Regulators have also significantly increased expectations for our internal reporting and data aggregation, as well as management reporting. We have incurred and continue to incur significant costs to implement infrastructure to meet these requirements. Failure to timely and accurately meet external reporting requirements or to meet regulatory expectations for internal reporting, data aggregation and management reporting could result in enforcement action or other adverse consequences for us.

Certain types of operational control weaknesses and failures could also adversely affect our ability to prepare and publish accurate and timely financial reports.

In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our businesses and the communities in which we operate. This may include a disruption due to natural disasters, pandemics, civil unrest, war or terrorism and involve electrical, communications, transportation or other services we use or used by third parties with whom we conduct business.

We may not be successful in implementing changes in our wealth management businesses to meet changing market, regulatory and other conditions

Our wealth and asset management businesses operate in an environment of increasing regulatory scrutiny and changing standards with respect to fiduciary and other standards of care and the focus on mitigating or eliminating conflicts of interest between a manager or advisor and the client, which require effective implementation across the global systems and processes of investment managers and other industry participants. For example, the SEC proposed a new regulation and interpretation intended to enhance and clarify the duties of brokers and investment advisers to retail customers. The proposed requirements, if adopted, would apply to a large portion of Global Wealth Management's business in the US, and we will likely be required to materially change business processes, policies and the terms on which we interact with these clients in order to comply with these rules, if and when they become fully effective. In addition, MiFID II imposes new requirements on us when providing advisory services to clients in the EU, including new requirements for agreements with clients.

UBS experienced cross-border outflows over a number of years as a result of heightened focus by fiscal authorities on cross-border investment and fiscal amnesty programs, in anticipation of the implementation in Switzerland of the global automatic exchange of tax information, and as a result of the measures UBS has implemented in response to these changes. Further changes in local tax laws or regulations and their enforcement, the implementation of cross-border tax information exchange regimes, national tax amnesty or enforcement programs or similar actions may affect our clients' ability or willingness to do business with us and result in additional cross-border outflows.

In recent years, Global Wealth Management's net new money inflows have come predominantly from clients in Asia Pacific and in the ultra high net worth segment globally. Over time, inflows from these lower-margin segments and markets have been replacing outflows from higher-margin segments and markets, in particular cross-border clients. This dynamic, combined with changes in client product preferences as a result of which low-margin products account for a larger share of our revenues than in the past, has put downward pressure on Global Wealth Management's margins.

As the discussion above indicates, we are exposed to possible outflows of client assets in our asset-gathering businesses and to changes affecting the profitability of Global Wealth Management, in particular. Initiatives that we may implement to overcome the effects of changes in the business environment on our profitability, balance sheet and capital positions may not succeed in counteracting those effects and may cause net new money outflows and reductions in client deposits, as happened with our balance sheet and capital optimization program in 2015. There is no assurance that we will be successful in our efforts to offset the adverse effect of these or similar trends and developments.

Our stated capital returns objective is based, in part, on capital ratios that are subject to regulatory change and may fluctuate significantly

We plan to operate with a CET1 capital ratio of around 13% and a CET1 leverage ratio of around 3.7%. Our ability to maintain these ratios is subject to numerous risks, including the financial results of our businesses, the effect of changes to capital standards, methodologies and interpretation that may adversely affect the calculation of our CET1 ratios, the imposition of risk add-ons or capital buffers, and the application of additional capital, liquidity and similar requirements to subsidiaries. The results of our businesses may be adversely affected by events arising from other factors described herein. In some cases, such as litigation and regulatory risk and operational risk events, losses may be sudden and large. These risks could reduce the amount of capital available for return to shareholders and hinder our ability to achieve our capital returns target of a progressive cash dividend coupled with a share repurchase program.

Failure to maintain our capital strength may adversely affect our ability to execute our strategy, our client franchise and our competitive position

Our capital strength is a key component of our strategy. Capital strength enables us to grow our businesses, and absorb increases in regulatory and capital requirements. It reassures our clients and stakeholders, forms the basis for our capital return policy and contributes to our credit ratings. Our capital ratios are driven primarily by RWA, leverage ratio denominator and eligible capital, all of which may fluctuate based on a number of factors, some of which are outside our control.

Our eligible capital may be reduced by losses recognized within net profit or other comprehensive income. Eligible capital may also be reduced for other reasons, including certain reductions in the ratings of securitization exposures, acquisitions and divestments changing the level of goodwill, adverse currency movements affecting the value of equity, prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions, and changes in the value of certain pension fund assets and liabilities or in the interest rate and other assumptions used to calculate the changes in our net defined benefit obligation recognized in other comprehensive income.

RWA are driven by our business activities, by changes in the risk profile of our exposures, by changes in our foreign currency exposures and foreign exchange rates and by regulation. For instance, substantial market volatility, a widening of credit spreads, adverse currency movements, increased counterparty risk, deterioration in the economic environment or increased operational risk could result in an increase in RWA. We have significantly reduced our market risk and credit risk RWA in recent years. However, increases in operational risk RWA, particularly those arising from litigation, regulatory and similar matters, and regulatory changes in the calculation of RWA and regulatory add-ons to RWA have offset a substantial portion of this reduction. Changes in the calculation of RWA or, as discussed above, the imposition of additional supplemental RWA charges or multipliers applied to certain exposures and other methodology changes, as well as the implementation of the recently adopted changes to international capital standards for banks, could substantially increase our RWA.

The leverage ratio is a balance sheet-driven measure and therefore limits balance sheet-intensive activities, such as lending, more than activities that are less balance sheet intensive, and it may constrain our business even if we satisfy other risk-based capital requirements. Our leverage ratio denominator is driven by, among other things, the level of client activity, including deposits and loans, foreign exchange rates, interest rates and other market factors. Many of these factors are wholly or partially outside of our control.

We may be unable to identify or capture revenue or competitive opportunities, or retain and attract qualified employees

The financial services industry is characterized by intense competition, continuous innovation, restrictive, detailed, and sometimes fragmented regulation and ongoing consolidation. We face competition at the level of local markets and individual business lines, and from global financial institutions that are comparable to us in their size and breadth. Barriers to entry in individual markets and pricing levels are being eroded by new technology. We expect these trends to continue and competition to increase. Our competitive strength and market position could be eroded if we are unable to identify market trends and developments, do not respond to such trends and developments by devising and implementing adequate business strategies, do not adequately develop or update our technology including our digital channels and tools, or are unable to attract or retain the qualified people needed.

The amount and structure of our employee compensation is affected not only by our business results but also by competitive factors and regulatory considerations.

In recent years, in response to the demands of various stakeholders, including regulatory authorities and shareholders, and in order to better align the interests of our staff with other stakeholders, we have increased average deferral periods for stock awards, expanded forfeiture provisions and, to a more limited extent, introduced clawback provisions for certain awards linked to business performance. We have also introduced individual caps on the proportion of fixed to variable pay for the Group Executive Board (GEB) members, as well as certain other employees.

Constraints on the amount or structure of employee compensation, higher levels of deferral, performance conditions and other circumstances triggering the forfeiture of unvested awards may adversely affect our ability to retain and attract key employees. The loss of key staff and the inability to attract qualified replacements could seriously compromise our ability to execute our strategy and to successfully improve our operating and control environment, and could affect our business performance. Swiss law requires that shareholders approve the compensation of the Board of Directors (BoD) and the GEB each year. If our shareholders fail to approve the compensation for the GEB or the BoD, this could have an adverse effect on our ability to retain experienced directors and our senior management.

We depend on our risk management and control processes to avoid or limit potential losses in our businesses

Controlled risk-taking is a major part of the business of a financial services firm. Some losses from risk-taking activities are inevitable, but to be successful over time, we must balance the risks we take against the returns generated. Therefore we must diligently identify, assess, manage and control our risks, not only in normal market conditions but also as they might develop under more extreme, stressed conditions, when concentrations of exposures can lead to severe losses.

As seen during the financial crisis of 2007–2009, we have not always been able to prevent serious losses arising from extreme or sudden market events that are not anticipated by our risk measures and systems. Our risk measures, concentration controls and the dimensions in which we aggregated risk to identify correlated exposures proved inadequate in a historically severe deterioration in financial markets. As a result, we recorded substantial losses on fixed income trading positions, particularly in 2008 and 2009. We have substantially revised and strengthened our risk management and control framework and increased the capital we hold relative to the risks we take. Nonetheless, we could suffer further losses in the future if, for example:

– we do not fully identify the risks in our portfolio, in particular risk concentrations and correlated risks;

– our assessment of the risks identified, or our response to negative trends, proves to be untimely, inadequate, insufficient or incorrect;

– markets move in ways that we do not expect – in terms of their speed, direction, severity or correlation – and our ability to manage risks in the resulting environment is, therefore, affected;

– third parties to whom we have credit exposure or whose securities we hold are severely affected by events and we suffer defaults and impairments beyond the level implied by our risk assessment; or

– collateral or other security provided by our counterparties proves inadequate to cover their obligations at the time of default.

We have exposures related to real estate in various countries, including a substantial Swiss mortgage portfolio. Although we believe this portfolio is prudently managed, we could nevertheless be exposed to losses if a substantial deterioration in the Swiss real estate market were to occur. We also hold legacy risk positions, primarily in Corporate Center, that, in many cases, are illiquid and may again deteriorate in value.

We also manage risk on behalf of our clients. The performance of assets we hold for our clients may be adversely affected by the same factors mentioned above. If clients suffer losses or the performance of their assets held with us is not in line with relevant benchmarks against which clients assess investment performance, we may suffer reduced fee income and a decline in assets under management, or withdrawal of mandates.

Investment positions, such as equity investments made as part of strategic initiatives and seed investments made at the inception of funds that we manage, may also be affected by market risk factors. These investments are often not liquid and generally are intended or required to be held beyond a normal trading horizon. Deteriorations in the fair value of these positions would have a negative effect on our earnings.

As UBS Group AG is a holding company, its operating results, financial condition and ability to pay dividends and other distributions and / or to pay its obligations in the future depend on funding, dividends and other distributions received directly or indirectly from its subsidiaries, which may be subject to restrictions

UBS Group AG's ability to pay dividends and other distributions and to pay its obligations in the future will depend on the level of funding, dividends and other distributions, if any, received from UBS AG and other subsidiaries. The ability of such subsidiaries to make loans or distributions, directly or indirectly, to UBS Group AG may be restricted as a result of several factors, including restrictions in financing agreements and the requirements of applicable law and regulatory, fiscal or other restrictions. In particular, UBS Group AG's direct and indirect subsidiaries, including UBS AG, UBS Switzerland AG, UBS Limited and UBS Americas Holding LLC, are subject to laws and regulations that restrict dividend payments, authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to UBS Group AG, or could affect their ability to repay any loans made to, or other investments in, such subsidiary by UBS Group AG or another member of the Group. For example, the US Comprehensive Capital Analysis and Review process requires that our US intermediate holding company demonstrate that it can continue to meet minimum capital standards over a hypothetical nine-quarter severely adverse economic scenario. If it fails to meet the quantitative capital requirements, or the Federal Reserve Board's qualitative assessment of the capital planning process is adverse, our US intermediate holding company would be prohibited from paying dividends or making distributions. Restrictions and regulatory actions of this kind could impede access to funds that UBS Group AG may need to meet its obligations or to pay dividends to shareholders. In addition, UBS Group AG's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to all prior claims of the subsidiary's creditors.

Our capital instruments may contractually prevent UBS Group AG from proposing the distribution of dividends to shareholders, other than in the form of shares, if we do not pay interest on these instruments.

Furthermore, UBS Group AG may guarantee some of the payment obligations of certain of the Group's subsidiaries from time to time. These guarantees may require UBS Group AG to provide substantial funds or assets to subsidiaries or their creditors or counterparties at a time when UBS Group AG is in need of liquidity to fund its own obligations.

The credit ratings of UBS Group AG or its subsidiaries used for funding purposes could be lower than the ratings of the Group's operating subsidiaries, which may adversely affect the market value of the securities and other obligations of UBS Group AG or those subsidiaries on a standalone basis.

Reputational risk

Our reputation is critical to our success

Our reputation is critical to the success of our strategic plans, business and prospects. Reputational damage is difficult to reverse, and improvements tend to be slow and difficult to measure. Our reputation has been adversely affected by our losses during the financial crisis, investigations into our cross-border private banking services, criminal resolutions of LIBOR-related and foreign exchange matters, as well as other matters. We believe that reputational damage as a result of these events was an important factor in our loss of clients and client assets across our asset-gathering businesses. New events that cause reputational damage could have a material adverse effect on our results of operation and financial condition, as well as our ability to achieve our strategic goals and financial targets.

Estimation and valuation risk

Our financial results may be negatively affected by changes to assumptions and valuations, as well as changes to accounting standards

We prepare our consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The application of these accounting standards requires the use of judgment based on estimates and assumptions that may involve significant uncertainty at the time they are made. This is the case, for example, with respect to the measurement of fair value of financial instruments, the recognition of deferred tax assets, the assessment of the impairment of goodwill and estimation of provisions for contingencies, including litigation, regulatory and similar matters. Such judgments, including the underlying estimates and assumptions, which encompass historical experience, expectations of the future and other factors, are regularly evaluated to determine their continuing relevance based on current conditions. Using different assumptions could cause the reported results to differ. Changes in assumptions, or failure to make the changes necessary to reflect evolving market conditions, may have a significant effect on the financial statements in the periods when changes occur. Estimates of provisions for contingencies may be subject to a wide range of potential outcomes and significant uncertainty. For example, the broad range of potential outcomes in our proceeding in France increases the uncertainty associated with assessing the appropriate provision. If the estimates and assumptions in future periods deviate from the current outlook, our financial results may also be negatively affected.

Changes to IFRS or interpretations thereof may cause future reported results and financial position to differ from current expectations, or historical results to differ from those previously reported due to the adoption of accounting standards on a retrospective basis. Such changes may also affect our regulatory capital and ratios. For example, we adopted IFRS 9 effective on 1 January 2018, which required us to change the accounting treatment of financial instruments measured at amortized cost and certain other positions, to record loans from inception net of expected credit losses instead of recording credit losses on an incurred loss basis, and is generally expected to result in an increase in recognized credit loss allowances. In addition, the ECL provisions of IFRS 9 may result in greater volatility in credit loss expense as ECL changes in response to developments in the credit cycle and composition of our loan portfolio. The effect may be more pronounced in a deteriorating economic environment.

Critical accounting estimates and judgments

In preparing our financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), we apply judgment and make estimates and assumptions that may involve significant uncertainty at the time they are made. We regularly reassess those estimates and assumptions, which encompass historical experience, expectations of the future and other pertinent factors, to determine their continuing relevance based on current conditions, and we update them as necessary. Changes in estimates and assumptions may have a significant effect on the financial statements. Furthermore, actual results may differ significantly from our estimates, which could result in significant losses to the Group, beyond what we anticipated or provided for.

Key areas involving a high degree of judgment and areas where estimates and assumptions are significant to the consolidated financial statements include:

– fair value of financial instruments

– allowances and provisions for expected credit losses

– assessment of the business model and certain contractual features when classifying financial instruments

– pension and other post-employment benefit plans

– income taxes

– goodwill

– provisions and contingent liabilities

– consolidation of structured entities

– determination of the functional currency and assessing the earliest date from which it is practical to perform a restatement following a change in presentation currency

We believe that the judgments, estimates and assumptions we have made are appropriate under the circumstances and that our financial statements fairly present, in all material respects, the financial position of UBS as of 31 December 2018 and the results of our operations and cash flows for 2018 in accordance with IFRS.

→ **Refer to “Note 1a Significant accounting policies” in the “Consolidated financial statements” section of this report for more information**

→ **Refer to the "Risk factors" section of this report for more information**

Significant accounting and financial reporting changes in 2018

Changes to our functional and presentation currencies

As a consequence of many legal entity structural changes over recent years – notably the transfer of our Personal & Corporate Banking and Global Wealth Management businesses booked in Switzerland from UBS AG to UBS Switzerland AG, and the creation of UBS Business Solutions AG, which houses a significant portion of the employees and associated costs that were previously held in UBS AG's Head Office in Switzerland and UBS AG's London branch – there is now a concentration of US dollar-influenced and -managed business activities in UBS AG's Head Office in Switzerland and UBS AG's London Branch. In addition, from the fourth quarter of 2018, for risk management purposes we adopted the US dollar as our risk-neutral currency and have adjusted our structural risk positions accordingly. As a result of these changes, effective from 1 October 2018, the functional currency of UBS Group AG and UBS AG's Head Office in Switzerland changed from Swiss francs to US dollars and that of UBS AG's London Branch from British pounds to US dollars, in compliance with the requirements of International Accounting Standard (IAS) 21, *The Effects of Changes in Foreign Exchange Rates*.

The presentation currency of UBS Group AG's consolidated financial statements has changed from Swiss francs to US dollars to align with the functional currency changes of significant Group entities. Prior periods have been restated for this presentation currency change. Assets, liabilities and total equity were translated to US dollars at closing exchange rates prevailing on the respective balance sheet dates, and income and expenses were translated at the respective average rates prevailing for the relevant periods. Additionally, *Other income* was restated to reflect releases of foreign currency translation (FCT) gains or losses from *Other comprehensive income* (OCI) to the income statement when calculated under US dollars as the presentation currency. The retrospective application of the presentation currency change did not affect total equity, but resulted in changes to the accumulated FCT OCI and other components of equity, in particular share premium and retained earnings. We have not restated our Basel III capital information due to immateriality.

→ **Refer to "Note 1 Summary of significant accounting policies" in the "Consolidated financial statements" section of this report for more information on the effects of restating to a US dollar presentation currency**

We will continue to publish selected financial and regulatory information in Swiss francs as part of our quarterly and annual reporting at *www.ubs.com/investors*. Business division results of Personal & Corporate Banking are presented in both Swiss francs and US dollars, and its management's discussion and analysis is provided in Swiss francs, as its business activities are mainly managed in Swiss francs.

We expect that these functional and presentation currency changes, together with the related changes to our risk management framework and certain hedging programs, should increase our reported Group operating income by approximately USD 0.3 billion in 2019 based on market-implied forwards.

IFRS 9, *Financial Instruments*

Effective 1 January 2018, we adopted IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement,* and substantially changed the classification, measurement and impairment of financial assets, income statement and balance sheet presentation and disclosure of financial instruments and other arrangements in scope. As permitted by IFRS 9, we elected not to restate prior-period information.

The adoption of IFRS 9 has resulted in a USD 0.6 billion reduction in our IFRS consolidated equity, net of tax, as well as a USD 0.3 billion reduction in our common equity tier 1 capital as of 1 January 2018, with no material effect on our capital ratios.

→ **Refer to “Note 1 Summary of significant accounting policies” in the “Consolidated financial statements” section of this report for more information**

IFRS 15, *Revenue from Contracts with Customers*

Effective 1 January 2018, we 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 other than those relating solely to financial instruments, leases and insurance contracts. IFRS 15 requires an entity to recognize revenue as performance obligations are satisfied. As permitted by IFRS 15, we elected not to restate prior-period information. The adoption of IFRS 15 has resulted in a reduction in our IFRS consolidated equity of USD 25 million, net of tax, as of 1 January 2018, with no material effect on our capital ratios.

→ **Refer to “Note 1 Summary of significant accounting policies” in the “Consolidated financial statements” section of this report for more information**

Changes to segment reporting effective first quarter 2018

Effective 1 February 2018, we integrated our Wealth Management and Wealth Management Americas business divisions into a single Global Wealth Management business division, which is managed on an integrated basis, with a single set of performance measures, performance targets, operating plan and management structure. Consistent with this, the operating results of Global Wealth Management are presented and assessed on an integrated basis in internal management reports to the Group Executive Board, which is considered the "chief operating decision maker" in accordance with IFRS 8 *Operating Segments*. Consequently, from the first quarter of 2018, Global Wealth Management qualifies as an operating and reportable segment for the purpose of segment reporting and is presented in these financial statements alongside Personal & Corporate Banking, Asset Management, the Investment Bank and Corporate Center. Following the change in the composition of our operating segments and corresponding reportable segments, previously reported segment information has been restated. The change has no effect on the recognized goodwill of either of the former segments.

Changes to Pillar 3 disclosure requirements

During 2018, we implemented several changes related to the "Pillar 3 disclosure requirement – consolidated and enhanced framework" as issued by the Basel Committee on Banking Supervision (BCBS) in March 2018, which represents the second phase of the BCBS review of the Pillar 3 disclosure framework and builds on the revisions to the Pillar 3 disclosure requirements published in January 2015. In addition, we implemented changes related to the revised Basel III securitization framework for securitization exposures in the banking book.

On 16 July 2018, FINMA issued a revised Circular 2016 / 1 "Disclosure – banks," including the aforementioned second-phase revisions, which requires banks to gradually implement the requirements from 31 December 2018 onward.

In addition, further disclosure requirements will be adopted in the first half of 2019, according to the applicable effective dates.

→ **Refer to the 31 December 2018 Pillar 3 report under "Pillar 3 disclosures" at *www.ubs.com/investors*, for more information on the changes to Pillar 3 disclosure requirements**

Significant accounting and financial reporting changes in 2019

IFRS 16, *Leases*

We have adopted IFRS 16, *Leases*, as of 1 January 2019, fundamentally changing how we account for operating leases when acting as a lessee. Upon adoption, assets and liabilities increased by approximately USD 3.5 billion, with a corresponding increase in risk-weighted assets (RWA) and leverage ratio denominator (LRD). As permitted by IFRS 16, we elected not to restate prior-period information.

→ **Refer to "Note 1d International Financial Reporting Standards and Interpretations to be adopted in 2019 and later and other changes" in the "Consolidated financial statements" section of this report for more information**

Changes in Corporate Center cost and resource allocation to business divisions

In order to further align Group and divisional performance, we are adjusting our methodology for the allocation of Corporate Center – Services funding costs and expenses to the business divisions. At the same time, we are updating our funds transfer pricing framework to better reflect the sources and usage of funding. All of these changes are effective as of 1 January 2019 and we will provide restated prior-period information in advance of our first quarter 2019 results.

Together, these changes will decrease the business divisions' operating results and thereby increase their adjusted cost / income ratios by approximately 1–2 percentage points, with an offsetting effect of approximately USD 0.7 billion in Corporate Center's operating profit / (loss) before tax.

We will retain in Corporate Center funding costs for deferred tax assets, costs relating to our legal entity transformation program and other costs not attributable to or representative of the performance of the business divisions.

Alongside the updates to cost allocations and to our funds transfer pricing framework, we are increasing the allocation of balance sheet resources from Corporate Center to the business divisions. For 2018, the restatement will result in approximately USD 26 billion of additional RWA and approximately USD 93 billion of additional LRD allocated from Corporate Center to the business divisions, consisting of:

– approximately USD 9 billion of additional RWA and LRD associated with property, equipment and software previously retained in Corporate Center – Services;

– approximately USD 14 billion of operational risk RWA previously allocated to Corporate Center – Services and Corporate Center – Group Asset and Liability Management (Group ALM);

– approximately USD 3 billion of additional RWA and approximately USD 90 billion of additional LRD previously retained in Corporate Center – Group ALM. This reflects a higher allocation of high-quality liquid assets (HQLA) to the business divisions, in line with the HQLA levels we expect to maintain, as well as the allocation of certain other assets centrally managed on behalf of the business divisions; and

– a reduction of approximately USD 7 billion in the LRD allocation related to an offset for common equity tier 1 (CET1) deduction items previously held in Corporate Center – Services, which is now allocated to the business divisions.

We have adopted IFRS 16, *Leases*, as of 1 January 2019, and allocated approximately USD 3.5 billion each of additional RWA and LRD to the business divisions.

Changes in equity attribution

The aforementioned changes in resource allocation from Corporate Center to the business divisions will be reflected in the equity attribution to the business divisions. Furthermore, we are updating our equity attribution framework, revising the capital ratio for RWA from 11% to 12.5% and incrementally allocating to business divisions approximately USD 2 billion of attributed equity that is related to certain common equity tier 1 (CET1) deduction items previously held centrally. In aggregate, we expect to allocate approximately USD 7 billion of additional attributed equity to the business divisions, of which approximately USD 3 billion will be allocated to the Investment Bank. The remaining attributed equity retained in Corporate Center will primarily relate to deferred tax assets, dividend accruals and Corporate Center – Non-core and Legacy Portfolio.

All of these changes are effective as of 1 January 2019 and we will provide restated prior-period information in advance of our first quarter results.

→ **Refer to “Equity attribution and return on attributed equity” in the “Capital management” section of this report for more information on the equity attributed to the business divisions**

Changes in Corporate Center segment reporting

As announced in our third quarter 2018 report, as of 1 January 2019, we no longer separately assess the performance of Corporate Center – Non-core and Legacy Portfolio, given its substantially reduced size and resource consumption. In addition, following the aforementioned changes to our methodology for allocating funding costs and expenses from Corporate Center – Services and Corporate Center – Group ALM to the business divisions, the operating loss retained in Corporate Center – Services and Corporate Center – Group ALM will be significantly reduced.

As a consequence and in compliance with IFRS 8, *Operating Segments*, beginning with our first quarter 2019 report, we will provide results for total Corporate Center only and will not separately report Corporate Center – Services, Group ALM and Non-core and Legacy Portfolio. Furthermore, we will operationally combine Group Treasury with Group ALM and call this combined function Group Treasury. Commentary on the performance of this function will be included in the Corporate Center management discussion and analysis in our quarterly and annual reporting. Former Group ALM total risk management net income after allocations will continue to be disclosed as a separate line item. Prior-period information will be restated.

IFRS 9 and our significant regulated subsidiaries and sub-groups

FINMA's plan to implement expected credit losses under Swiss GAAP has been deferred. We will continue to apply the incurred loss model in the UBS AG standalone and UBS Switzerland AG standalone financial statements, which are prepared in accordance with Swiss GAAP (FINMA Circular 2015 / 1 and Banking Ordinance).

UBS Americas Holding LLC expects to early adopt Accounting Standards Update (ASU) 2016-13, *Measurement of Credit Losses on Financial Instruments,* on 1 January 2020, in order for its consolidated financial statements to align with the mandatory effective date for some of its subsidiaries.

Group performance

Income statement

	For the year ended			% change from
USD million	**31.12.18**	31.12.17	31.12.16	31.12.17
Net interest income	**6,025**	6,656	6,487	(9)
Other net income from fair value changes on financial instruments	**5,984**	5,065	5,023	18
Credit loss (expense) / recovery	**(118)**	(131)	(38)	(10)
Fee and commission income	**19,598**	19,362	18,374	1
Fee and commission expense	**(1,703)**	(1,840)	(1,781)	(7)
Net fee and commission income	**17,895**	17,522	16,593	2
Other income	**427**	511	663	(16)
Total operating income	**30,213**	29,622	28,729	2
of which: net interest income and other net income from fair value changes on financial instruments	***12,008***	*11,721*	*11,510*	*2*
Personnel expenses	**16,132**	16,199	15,913	0
General and administrative expenses	**6,797**	6,949	7,517	(2)
Depreciation and impairment of property, equipment and software	**1,228**	1,053	997	17
Amortization and impairment of intangible assets	**65**	71	93	(8)
Total operating expenses	**24,222**	24,272	24,519	0
Operating profit / (loss) before tax	**5,991**	5,351	4,209	12
Tax expense / (benefit)	**1,468**	4,305	777	(66)
Net profit / (loss)	**4,522**	1,046	3,432	332
Net profit / (loss) attributable to non-controlling interests	**7**	77	84	(91)
Net profit / (loss) attributable to shareholders	**4,516**	969	3,348	366
Comprehensive income				
Total comprehensive income	**4,231**	2,113	1,251	100
Total comprehensive income attributable to non-controlling interests	**5**	326	62	(98)
Total comprehensive income attributable to shareholders	**4,225**	1,787	1,189	136

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

	For the year ended 31.12.18						
USD million	**Global Wealth Management**	**Personal & Corporate Banking**	**Asset Management**	**Investment Bank**	**CC – Services[3]**	**CC – Group ALM**	**CC – Non-core and Legacy Portfolio**
Operating income as reported	**16,941**	**4,222**	**1,857**	**8,150**	**(513)**	**(609)**	**165**
of which: gains related to investments in associates[4]	***101***	***359***					
of which: gains on sale of real estate					***31***		
of which: gains on sale of subsidiaries and businesses					***25***		
of which: remeasurement loss related to UBS Securities China[5]					***(270)***		
Operating income (adjusted)	**16,840**	**3,863**	**1,857**	**8,150**	**(300)**	**(609)**	**165**
Operating expenses as reported	**13,313**	**2,310**	**1,406**	**6,501**	**293**	**84**	**315**
of which: personnel-related restructuring expenses[6]	***34***	***4***	***23***	***16***	***208***	***0***	***0***
of which: non-personnel-related restructuring expenses[6]	***16***	***0***	***10***	***11***	***238***	***0***	***0***
of which: restructuring expenses allocated from CC − Services[6]	***209***	***43***	***33***	***166***	***(456)***	***3***	***3***
of which: gain related to changes to the Swiss pension plan	***(66)***	***(38)***	***(10)***	***(5)***	***(122)***		
Operating expenses (adjusted)	**13,120**	**2,300**	**1,350**	**6,313**	**425**	**81**	**312**
of which: net expenses for litigation, regulatory and similar matters[7]	***619***	***41***	***0***	***(64)***	***(7)***	***0***	***69***

Operating profit / (loss) before tax as reported	**3,628**	**1,912**	**451**	**1,649**	**(806)**	**(693)**	**(150)**
Operating profit / (loss) before tax (adjusted)	**3,720**	**1,563**	**508**	**1,836**	**(725)**	**(690)**	**(148)**

For the year ended 31.12.17

USD million	Global Wealth Management	Personal & Corporate Banking	Asset Manage-ment	Investment Bank	CC – Services[3]	CC – Group ALM	CC – Nor core anc Legacy Portfolic
Operating income as reported	16,287	3,925	2,083	7,794	(157)	(288)	(22)
of which: gains on sale of subsidiaries and businesses			*153*				
of which: gains on sale of financial assets at fair value through OCI[8]				*137*			
of which: net foreign currency translation losses[9]						*(16)*	
Operating income (adjusted)	16,287	3,925	1,929	7,658	(157)	(271)	(22)
Operating expenses as reported	12,717	2,317	1,495	6,527	779	48	388
of which: personnel-related restructuring expenses[6]	*39*	*7*	*17*	*39*	*442*	*1*	*0*
of which: non-personnel-related restructuring expenses[6]	*75*	*0*	*22*	*18*	*532*	*0*	*0*
of which: restructuring expenses allocated from CC – Services[6]	*474*	*98*	*63*	*310*	*(954)*	*3*	*6*
of which: expenses from modification of terms for certain DCCP awards[10]				*26*			
Operating expenses (adjusted)	12,129	2,212	1,393	6,135	759	44	382
	174	*2*	*(4)*	*(42)*	*252*	*0*	*52*

of which: net expenses for litigation, regulatory and similar matters[7]							
Operating profit / (loss) before tax as reported	**3,571**	**1,607**	**587**	**1,267**	**(935)**	**(336)**	**(411)**
Operating profit / (loss) before tax (adjusted)	**4,159**	**1,713**	**536**	**1,523**	**(915)**	**(315)**	**(405)**

Financial and operating performance
Group performance

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

	For the year ended 31.12.16							
USD million	Global Wealth Management	Personal & Corporate Banking	Asset Manage-ment	Investment Bank	CC – Services[3]	CC – Group ALM	CC – Non-core and Legacy Portfolio	UB
Operating income as reported	15,249	4,035	1,955	7,779	(103)	(155)	(32)	28,72
of which: gains on sale of financial assets at fair value through OCI[8]	*31*	*105*		*77*				*21*
of which: gains on sale of real estate					*123*			*12*
of which: gains related to investments in associates		*21*						*2*
of which: net foreign currency translation losses[9]						*(84)*		*(84*
of which: losses on sale of subsidiaries and businesses	*(24)*							*(24*
Operating income (adjusted)	15,242	3,909	1,955	7,702	(226)	(71)	(32)	28,48
Operating expenses as reported	12,159	2,250	1,498	6,765	753	(1)	1,094	24,51
of which: personnel-related restructuring expenses[6]	*61*	*4*	*15*	*156*	*526*	*0*	*1*	*76*
of which: non-personnel-related restructuring expenses[6]	*55*	*0*	*15*	*14*	*631*	*0*	*0*	*71*
of which: restructuring expenses allocated from CC − Services[6]	*478*	*115*	*72*	*416*	*(1,101)*	*0*	*21*	
Operating expenses (adjusted)	11,564	2,132	1,397	6,179	697	(1)	1,073	23,04
of which: net expenses for litigation, regulatory and similar	*164*	*3*	*(2)*	*42*	*2*	*0*	*595*	*80*

matters[7]								
Operating profit / (loss) before tax as reported	**3,090**	**1,785**	**457**	**1,014**	**(856)**	**(154)**	**(1,126)**	**4,20**
Operating profit / (loss) before tax (adjusted)	**3,678**	**1,778**	**558**	**1,524**	**(923)**	**(70)**	**(1,105)**	**5,43**

1 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 2 Comparative figures in this table have been restated for the change of the presentation currency from Swiss francs to US dollars with assets, liabilities and total equity translated to US dollars at 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. Comparatives may additionally differ due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 3 Corporate Center − Services operating expenses presented in this table are after service allocation to business divisions and other Corporate Center units. 4 Reflects a valuation gain on our equity ownership in SIX related to the sale of SIX Payment Services to Worldline. 5 Related to the increase of stake in and consolidation of UBS Securities China. Refer to “Note 32 Changes in organization and acquisitions and disposals of subsidiaries and businesses” in the “Consolidated financial statements” section of this report for more information. 6 Reflects restructuring expenses related to legacy cost programs as well as expenses for new restructuring initiatives for Global Wealth Management and Asset Management in 2018. 7 Reflects the net increase in / (release of) provisions for litigation, regulatory and similar matters recognized in the income statement. Refer to ”Note 21 Provisions and contingent liabilities” in the “Consolidated financial statements” section of this report for more information. Also includes recoveries from third parties of USD 29 million, USD 55 million and USD 13 million for the years ended 31 December 2018, 31 December 2017 and 31 December 2016, respectively. 8 Includes a gain on the sale of our investment in the London Clearing House in the Investment Bank in 2017, gains on sales of our investment in IHS Markit in the Investment Bank in 2017 and 2016, and a gain on the sale of our investment in Visa Europe in Global Wealth Management and Personal & Corporate Banking in 2016. Figures presented for periods prior to 2018 relate to financial assets available for sale. 9 Related to the disposal of foreign branches and subsidiaries. 10 Relates to the removal of the service period requirement for DCCP awards granted for the performance years 2012 and 2013.

2018 compared with 2017

Results

We recorded net profit attributable to shareholders of USD 4,516 million in 2018, which included a net tax expense of USD 1,468 million. In 2017, net profit attributable to shareholders was USD 969 million, which included a net tax expense of USD 4,305 million, including a USD 2,939 million net write-down of deferred tax assets following the reduction in the US federal corporate tax rate after the enactment of the Tax Cuts and Jobs Act (TCJA) in the US during the fourth quarter of 2017.

Profit before tax increased by USD 640 million, or 12%, to USD 5,991 million, mainly reflecting higher operating income. Operating income increased by USD 591 million, or 2%, reflecting a USD 373 million increase in net fee and commission income as well as USD 287 million higher net interest income and other net income from fair value changes on financial instruments. Operating expenses were broadly unchanged, mainly as USD 169 million higher expenses for depreciation, amortization and impairment of property, equipment, software and intangible assets were offset by USD 152 million lower general and administrative expenses.

In addition to reporting our results in accordance with International Financial Reporting Standards (IFRS), we report adjusted results that exclude items that management believes are not representative of the underlying performance of our businesses. Such adjusted results are non-GAAP financial measures as defined by SEC regulations. These adjustments include restructuring expenses related to our CHF 2.1 billion cost reduction program, completed at the end of 2017 (referred to as our “legacy cost programs” in this report). We incurred restructuring expenses in connection with such legacy cost programs, as well as expenses relating to new restructuring initiatives, of USD 561 million and expect such amounts to be approximately USD 0.2 billion for the full year 2019.

For the purpose of determining adjusted results for 2018, we excluded a gain of USD 460 million related to investments in associates, gains of USD 31 million on sale of real estate, gains of USD 25 million on sale of subsidiaries and businesses, a remeasurement loss of USD 270 million related to the increase of our shareholding in UBS Securities China, a gain of USD 241 million related to changes to the Swiss pension plan, and net restructuring expenses of USD 561 million. For 2017, we excluded gains of USD 153 million on sale of subsidiaries and businesses, gains of USD 137 million on sale of financial assets at fair value through OCI, net foreign currency translation losses of USD 16 million, expenses of USD 26 million related to the modification of terms for Deferred Contingent Capital Plan (DCCP) awards granted for the performance years 2012 and 2013, and net restructuring expenses of USD 1,192 million.

On this adjusted basis, profit before tax decreased by USD 232 million, or 4%, to USD 6,063 million, reflecting USD 849 million higher adjusted operating expenses, partly offset by USD 617 million higher adjusted operating income.

Operating income

Total operating income was USD 30,213 million compared with USD 29,622 million. On an adjusted basis, total operating income increased by USD 617 million, or 2%, to USD 29,966 million, mainly due to a USD 373 million increase in net fee and commission income as well as USD 287 million higher net interest income and other net income from fair value changes on financial instruments.

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

	For the year ended			% change from
USD million	**31.12.18**	31.12.17	31.12.16	31.12.17
Net interest income from financial instruments measured at amortized cost and fair value through other comprehensive income (AC / FVOCI)	**3,710**	5,018	5,403	(26)
Net interest income from financial instruments measured at fair value through profit or loss (FVTPL)	**2,315**	1,638	1,084	41
Other net income from fair value changes on financial instruments	**5,984**	5,065	5,023	18
Total	**12,008**	11,721	11,510	2
Global Wealth Management	**5,254**	5,149	4,893	2
of which: net interest income	***4,310***	*4,103*	*3,843*	*5*
of which: transaction-based income from foreign exchange and other intermediary activity[1]	***944***	*1,046*	*1,050*	*(10)*
Personal & Corporate Banking	**2,514**	2,510	2,563	0
of which: net interest income	***2,106***	*2,127*	*2,225*	*(1)*
of which: transaction-based income from foreign exchange and other intermediary activity[1]	***408***	*383*	*337*	*6*
Asset Management	**(30)**	(24)	(29)	23
Investment Bank[2]	**4,812**	4,363	4,330	10
Corporate Client Solutions	***1,056***	*1,087*	*830*	*(3)*
Investor Client Services	***3,756***	*3,276*	*3,500*	*15*
Corporate Center[2]	**(541)**	(278)	(246)	95
CC – Services	***(159)***	*(43)*	*(90)*	*268*
CC – Group ALM	***(554)***	*(162)*	*(96)*	*241*
CC – Non-core and Legacy Portfolio	***173***	*(72)*	*(60)*	

1 Mainly includes spread-related income in connection with client-driven transactions, foreign currency translation effects and income and expenses from precious metals, which are included in the income statement line Other net income from fair value changes on financial instruments. The amounts reported on this line are one component of Transaction-based income in the management discussion and analysis of Global Wealth Management and Personal & Corporate Banking in the “Global Wealth Management” and “Personal & Corporate Banking” sections of this report. 2 Investment Bank and Corporate Center information is

provided at the business line level rather than by financial statement reporting line in order to reflect the underlying business activities, which is consistent with the structure of their management discussion and analysis in the “Investment Bank” and “Corporate Center” sections of this report.

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

Total combined net interest income and other net income from fair value changes on financial instruments increased by USD 287 million to USD 12,008 million. This was mainly driven by increases in the Investment Bank and Global Wealth Management, partly offset by a decrease in Corporate Center.

Global Wealth Management

In Global Wealth Management, net interest income increased by USD 207 million to USD 4,310 million, reflecting an increase in average margin on deposits and higher loan volumes, partly offset by the expiration of an interest rate hedge portfolio at the end of 2017, lower net income from Group structural risk management activities and higher funding costs for long-term debt that contributes to total loss-absorbing capacity.

Transaction-based income from foreign exchange and other intermediary activity decreased by USD 102 million to USD 944 million, mainly due to lower client activity.

Personal & Corporate Banking

In Personal & Corporate Banking, net interest income decreased by USD 21 million to USD 2,106 million, primarily related to the expiration of an interest rate hedge portfolio at the end of 2017, as well as higher funding costs for long-term debt that contributes to total loss-absorbing capacity and lower banking book interest income. This was partly offset by higher deposit revenues.

Transaction-based income from foreign exchange and other intermediary activity increased by USD 25 million to USD 408 million, mainly due to higher net income from foreign exchange transactions.

Investment Bank

In the Investment Bank, net interest income and other net income from fair value changes on financial instruments increased by USD 449 million to USD 4,812 million. This was driven by a USD 480 million increase in Investor Client Services, primarily in Foreign Exchange, Rates and Credit, mainly due to higher client activity levels and improved trading performance across the majority of products. 2018 also included the recognition of net income of around USD 100 million, comprised mainly of previously deferred day-1 profits, due to enhanced observability and revised valuations in the funding curve used to value UBS interest-linked notes. In addition, there was an increase in Equities, primarily in Financing Services and Derivatives, driven by increased client activity. In Corporate Client Solutions, net interest income and other net income from fair value changes on financial instruments was broadly stable at USD 1,056 million.

Corporate Center

In Corporate Center, net interest income and other net income from fair value changes on financial instruments decreased by USD 263 million, primarily reflecting a USD 392 million decrease in Corporate Center – Group Asset and Liability Management (Group ALM), mainly due to higher net interest expense in Group ALM's unsecured funding portfolio. In addition, there was a USD 116 million decrease in Corporate Center – Services, primarily driven by higher funding costs relating to Corporate Center – Services' balance sheet assets. These decreases were partly offset by a USD 245 million increase in Corporate Center – Non-core and Legacy Portfolio, primarily because 2018 included valuation gains on auction rate securities, which were measured at amortized cost in 2017 and are now measured at fair value through profit or loss effective 1 January 2018 upon adoption of IFRS 9.

→ **Refer to "Note 3 Net interest income and other net income from fair value changes on financial instruments" in the "Consolidated financial statements" section of this report for more information**

Credit loss expense / recovery

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

Total net credit loss expenses were USD 118 million in 2018, reflecting net losses of USD 95 million related to credit-impaired (stage 3) positions, mainly in Personal & Corporate Banking and to a lesser extent in the Investment Bank, as well as net expected credit losses of USD 23 million related to stage 1 and 2 positions.

→ **Refer to "Note 1 Summary of significant accounting policies" in the "Consolidated financial statements" section of this report for more information on the adoption of IFRS 9**

→ **Refer to "Note 23 Expected credit loss measurement" in the "Consolidated financial statements" section of this report for more information on credit loss expense / recovery**

→ **Refer to the "Risk factors" section of this report for more information**

Credit loss (expense) / recovery

	For the year ended			% change from
USD million	**31.12.18**	31.12.17	31.12.16	31.12.17
Global Wealth Management	**(15)**	(8)	(8)	89
Personal & Corporate Banking	**(56)**	(20)	(6)	180
Investment Bank	**(38)**	(92)	(11)	(58)

Corporate Center	**(8)**	(11)	(12)	(27)
of which: Non-core and Legacy Portfolio	***(8)***	*(11)*	*(12)*	*(33)*
Total	**(118)**	(131)	(38)	(10)

Net fee and commission income

Net fee and commission income was USD 17,895 million compared with USD 17,522 million.

Investment fund fees and fees for portfolio management and related services increased by USD 722 million to USD 12,710 million, mainly in Global Wealth Management, predominantly driven by higher average invested assets and an increase in mandate penetration during the year.

M&A and corporate finance fees increased by USD 70 million to USD 768 million, primarily reflecting an increase in the Investment Bank due to higher revenues from both private transactions and merger and acquisition transactions.

Other fee and commission expense increased by USD 220 million to USD 1,387 million, primarily in Asset Management, mainly due to the inclusion of fund administration expenses, which were reported as operating expenses prior to the sale of Asset Management's fund administration business in October 2017.

Underwriting fees decreased by USD 192 million to USD 811 million, mainly reflecting lower equity underwriting revenues in the Investment Bank.

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

Other income

Other income was USD 427 million compared with USD 511 million. Excluding the aforementioned adjusting items, which consist of gains related to investments in associates, gains on sales of subsidiaries and businesses, gains on sale of financial assets at fair value through OCI and real estate, a remeasurement loss related to UBS Securities China and net foreign currency translation losses, adjusted other income decreased by USD 56 million. This decrease was mainly due to higher gains on sale of financial assets at fair value through OCI in 2017, which were not treated as adjusting items.

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

→ **Refer to "Note 32 Changes in organization and acquisitions, sales and disposals of subsidiaries and businesses" in the "Consolidated financial statements" section of this report for more information on the increase of stake in and consolidation of UBS Securities China**

Operating expenses

Total operating expenses were broadly unchanged at USD 24,222 million. Excluding net restructuring expenses of USD 561 million (2017: USD 1,192 million) and a gain of USD 241 million in 2018 related to changes to the Swiss pension plan, as well as expenses of USD 26 million in 2017 in the Investment Bank related to the modification of terms for DCCP awards granted for the performance years 2012 and 2013, adjusted total operating expenses increased by USD 849 million, or 4%, to USD 23,903 million.

Personnel expenses

Personnel expenses decreased by USD 67 million to USD 16,132 million, mainly reflecting a USD 259 million decrease in net restructuring expenses and a gain of USD 241 million in 2018 related to changes to the Swiss pension plan, largely offset by higher salary expenses. On an adjusted basis, personnel expenses increased by USD 459 million.

Adjusted expenses for salaries increased by USD 472 million to USD 6,273 million, mainly in Corporate Center – Services, primarily driven by continued insourcing of certain activities and staff from third-party vendors to our Business Solutions Centers. This increase in salaries was partly offset by lower general and administrative expenses. Salary expenses also increased in Global Wealth Management.

Adjusted expenses for total variable compensation decreased by USD 75 million, reflecting a decrease of USD 112 million in expenses for awards related to prior years, partly offset by USD 38 million higher expenses for current-year awards.

Financial advisor variable compensation was broadly stable at USD 4,054 million, reflecting lower expenses for compensation commitments to recruited financial advisors, almost entirely offset by an increase in expenses due to higher compensable revenues.

Adjusted other personnel expenses increased by USD 72 million, primarily due to an increase in costs for salary-related add-ons, recruitment and contractors, partly offset by lower expenses for pension and other post-employment benefit plans.

→ **Refer to the “Compensation” section of this report for more information**

→ **Refer to “Note 6 Personnel expenses,” ”Note 29 Pension and other post-employment benefit plans” and “Note 30 Employee benefits: variable compensation” in the “Consolidated financial statements” section of this report for more information**

General and administrative expenses

General and administrative expenses decreased by USD 152 million to USD 6,797 million. This was mainly due to USD 415 million lower net restructuring expenses, partly offset by USD 223 million higher net expenses for litigation, regulatory and similar matters. Net expenses for the UK and German bank levy were USD 58 million in 2018 and included a USD 45 million credit related to prior years. In 2017, net expenses for the UK and German bank levy were USD 20 million and included an USD 85 million credit related to prior years.

On an adjusted basis, general and administrative expenses increased by USD 263 million, primarily due to the aforementioned increase in net expenses for litigation, regulatory and similar matters and USD 147 million higher expenses for rent and maintenance of IT and other equipment. This was partly offset by USD 66 million lower professional fees and a USD 52 million decrease in marketing and public relations costs.

Operating expenses

	For the year ended			% change from
USD million	**31.12.18**	31.12.17	31.12.16	31.12.17
Operating expenses as reported				
Personnel expenses	**16,132**	16,199	15,913	0
General and administrative expenses	**6,797**	6,949	7,517	(2)
Depreciation and impairment of property, equipment and software	**1,228**	1,053	997	17
Amortization and impairment of intangible assets	**65**	71	93	(8)
Total operating expenses as reported	**24,222**	24,272	24,519	0
Adjusting items				
Personnel expenses	**45**	570	763	
of which: restructuring expenses[1]	***286***	*545*	*763*	
of which: a gain related to changes to the Swiss pension plan[2]	***(241)***			
of which: expenses from modification of terms for certain DCCP awards[3]		*26*		
General and administrative expenses[1]	**225**	640	705	
Depreciation and impairment of property, equipment and software[1]	**50**	7	11	
Total adjusting items	**319**	1,217	1,479	
Operating expenses (adjusted)[4]				
Personnel expenses	**16,087**	15,628	15,150	3
of which: salaries	***6,273***	*5,801*	*5,864*	*8*
of which: total variable compensation	***3,167***	*3,242*	*3,123*	*(2)*
of which: relating to current year[5]	***2,576***	*2,538*	*2,281*	*1*
of which: relating to prior years[6]	***592***	*704*	*842*	*(16)*
of which: financial advisor variable compensation[7]	***4,054***	*4,064*	*3,740*	*0*
of which: other personnel expenses[8]	***2,593***	*2,521*	*2,423*	*3*
General and administrative expenses	**6,572**	6,309	6,812	4
	657	*434*	*805*	*51*

of which: net expenses for litigation, regulatory and similar matters				
of which: other general and administrative expenses	***5,916***	*5,875*	*6,007*	*1*
Depreciation and impairment of property, equipment and software	**1,178**	1,046	986	13
Amortization and impairment of intangible assets	**65**	71	93	(8)
Total operating expenses (adjusted)	**23,903**	23,054	23,041	4

1 Reflects restructuring expenses related to legacy cost programs as well as expenses for new restructuring initiatives for Global Wealth Management and Asset Management in 2018. 2 Refer to “Note 29 Pension and other post-employment benefit plans” in the “Consolidated financial statements” section of this report for more information. 3 Relates to the removal of the service period requirement for DCCP awards granted for the performance years 2012 and 2013. 4 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 5 Includes expenses relating to performance awards and other variable compensation for the respective performance year. 6 Consists of amortization of prior years’ awards relating to performance awards and other variable compensation. 7 Financial advisor variable compensation consists of formulaic compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated on the basis of financial advisor productivity, firm tenure, new 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. 8 Consists of expenses related to contractors, social security, pension and other post-employment benefit plans and other personnel expenses. Refer to “Note 6 Personnel expenses” in the “Consolidated financial statements” section of this report for more information.

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

→ **Refer to “Note 7 General and administrative expenses” and “Note 21 Provisions and contingent liabilities” in the “Consolidated financial statements” section of this report for more information**

Depreciation, amortization and impairment

Depreciation, amortization and impairment of property, equipment, software and intangible assets was USD 1,293 million compared with USD 1,124 million, mainly resulting from higher expenses for internally generated capitalized software, driven by newly developed software that has been placed in service over the last 12 months, and higher impairment costs.

On an adjusted basis, depreciation, amortization and impairment of property, equipment, software and intangible assets increased by USD 126 million, primarily due to the aforementioned increase in expenses for internally generated capitalized software.

→ **Refer to “Note 15 Property, equipment and software” and “Note 16 Goodwill and intangible assets” in the “Consolidated financial statements” section of this report for more information**

Tax

We recognized an income tax expense of USD 1,468 million for 2018, compared with an income tax expense of USD 4,305 million for 2017.

The 2018 income tax expense reflects current tax expenses of USD 884 million, which primarily relate to taxable profits of UBS Switzerland AG and other entities. It also includes a net deferred tax expense of USD 859 million, which primarily relates to the amortization of deferred tax assets (DTAs) previously recognized in relation to tax losses carried forward and deductible temporary differences to reflect their offset against profits for the year.

In addition, following the corporate tax reform in the US at the end of 2017 and the reduction in timeframe between the end of our seven-year profit forecast period and the expiry of our brought-forward US tax losses, we have reviewed our approach to the remeasurement of our US DTAs. This review resulted in the recognition of a net tax benefit during the year of USD 275 million, comprised of as follows:

– The write-off of a Swiss temporary difference DTA of USD 1,617 million relating to UBS AG’s investment in our US intermediate holding company (US IHC), UBS Americas Holding LLC. The write-off occurred because the temporary difference between the tax and accounting values in respect of UBS AG’s investment in the US IHC is no longer expected to reverse in the foreseeable future, reflecting the expected repatriation of a significant portion of future US earnings.

– A net increase in DTAs of USD 1,180 million, which is the sum of two related items. We recognized new US temporary difference DTAs of USD 2,134 million as a result of tax elections made in the fourth quarter of 2018 to capitalize certain historic real estate costs for US tax purposes that will be amortized over a period of up to 39 years. These elections also resulted in a reduction in recognized US tax loss DTAs of USD 954 million, because expected future taxable profits otherwise available against which to utilize brought-forward tax losses were reduced by the expected future amount of capitalized real estate cost amortization.

– A current US state and local tax expense of USD 160 million resulting from the real estate capitalization elections.

– An increase in recognized US DTAs recorded at the level of UBS Americas Inc. of USD 1,367 million, reflecting the elimination of the seven-year profit forecast period limit for US tax loss DTAs as well as the transfer by UBS AG of US shareholdings in certain profitable subsidiaries to UBS Americas Inc.

– A decrease in recognized US DTAs for UBS AG of USD 495 million, which mainly relates to the transfer of the shareholdings referred to above.

The 2017 income tax expense of USD 4,305 million included a deferred tax expense of USD 3,415 million, which primarily related to a net write-down of DTAs in respect of the US federal corporate tax rate reduction included in the TCJA enacted in the fourth quarter of 2017. It also included a current tax expense of USD 890 million, which related to taxable profits of UBS Switzerland AG and other entities.

Tax loss DTAs at the level of UBS Americas Inc. will begin to be amortized with effect from 1 January 2019. For 2019, we expect a full-year tax rate of approximately 25%, of which 14% relates to current tax expenses.

→ **Refer to “Note 8 Income taxes” in the “Consolidated financial statements” section of this report for more information**

→ **Refer to the “Risk factors” section of this report for more information**

Total comprehensive income attributable to shareholders

In 2018, total comprehensive income attributable to shareholders was USD 4,225 million, reflecting net profit of USD 4,516 million, partly offset by negative other comprehensive income (OCI), net of tax, of USD 290 million.

Foreign currency translation OCI was negative USD 541 million in 2018, mainly resulting from the weakening of the Swiss franc, the euro and the British pound against the US dollar. In 2017, OCI related to foreign currency translation was positive USD 1,564 million.

OCI related to cash flow hedges was negative USD 269 million, mainly reflecting a decrease in net unrealized gains on hedging derivatives resulting from increases in the relevant long-term interest rates. In 2017, OCI related to cash flow hedges was negative USD 635 million.

OCI associated with financial assets measured at fair value through OCI was negative USD 45 million, compared with negative USD 91 million, reflecting net unrealized losses following increases in the relevant US dollar long-term interest rates in 2018.

OCI related to own credit on financial liabilities designated at fair value was positive USD 509 million and primarily reflected a widening of credit spreads. In 2017, OCI related to own credit on financial liabilities designated at fair value was negative USD 317 million, primarily reflecting a tightening of credit spreads.

Defined benefit plan OCI was USD 56 million compared with USD 296 million. Total pre-tax OCI related to the Swiss defined benefit plan was negative USD 352 million. This reflected a net gain of USD 242 million from the remeasurement of the defined benefit obligation (DBO) which was more than offset by a loss of USD 523 million due to a negative return on plan assets and a loss of USD 71 million related to an increase in the effect of the IFRS asset ceiling. The net gain of USD 242 million related to the DBO remeasurement was mainly driven by a gain of USD 776 million due to an increase in the applicable discount rate, partly offset by an experience loss of USD 397 million (reflecting the effects of differences between the previous actuarial assumptions and what actually occurred) and a loss of USD 124 million due to an increase in the rate of interest credit on retirement savings.

Total pre-tax OCI related to UK defined benefit plans was positive USD 132 million, reflecting OCI gains of USD 269 million from the remeasurement of the DBO, primarily driven by a gain of USD 220 million due to an increase in the applicable discount rate. This was partly offset by OCI losses of USD 136 million due to a negative return on plan assets.

The total pre-tax OCI loss of USD 220 million was more than offset by a net tax benefit of USD 276 million, mainly due to the recognition of temporary difference DTAs in the US in the fourth quarter of 2018, following our review of the approach used to remeasure our US DTAs and the timing for recognizing deferred taxes.

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

→ **Refer to "Note 29 Pension and other post-employment benefit plans" in the "Consolidated financial statements" section of this report for more information on defined benefit plans**

Sensitivity to interest rate movements

As of 31 December 2018, we estimate that a parallel shift in yield curves by +100 basis points could lead to a combined increase in annual net interest income of approximately USD 0.7 billion in Global Wealth Management and Personal & Corporate Banking. Of this increase, approximately USD 0.3 billion and USD 0.2 billion would result from changes in US dollar and euro interest rates, respectively.

The immediate effect on shareholders' equity of such a shift in yield curves would be a decrease of approximately USD 2.0 billion recognized in OCI, of which approximately USD 1.5 billion would result from changes in US dollar interest rates. The immediate effect on regulatory capital would be immaterial as OCI from cash flow hedges is not recognized in capital and the effect from debt instruments measured at fair value through OCI would be offset by a positive effect from pension fund assets and liabilities.

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

Net profit attributable to non-controlling interests

Net profit attributable to non-controlling interests was USD 7 million in 2018, compared with USD 77 million in the prior year, mainly because a EUR 600 million non-Basel III-compliant hybrid tier 1 capital instrument was redeemed in the fourth quarter of 2017.

For 2019, we currently expect net profit attributable to non-controlling interests to be less than USD 10 million.

Key figures

Return on tangible equity

The return on tangible equity (RoTE) was 10.0% compared with 2.2%, mainly because the fourth quarter of 2017 included a USD 2,939 million net write-down of DTAs following a reduction in the US federal corporate tax rate after the enactment of the TCJA in the US. The adjusted RoTE excluding deferred tax expense / benefit and DTAs was 12.9% compared with 13.7%, and was below our 2018 target of approximately 15%.

Return on common equity tier 1 (CET1) capital

The return on CET1 capital (RoCET1) was 13.1% compared with 3.0%, mainly because the fourth quarter of 2017 included the aforementioned net write-down of DTAs. Excluding this net DTA write-down from net profit attributable to shareholders, the RoCET1 would have been 12.0% in 2017.

Cost / income ratio

The cost / income ratio was 79.9% compared with 81.6%. On an adjusted basis, the cost / income ratio was 79.5% compared with 78.2%, and was above our over-the-cycle target of below 75%.

Common equity tier 1 capital ratio / risk-weighted assets

Our CET1 capital ratio was 12.9%, a decrease of 0.8 percentage points compared with 31 December 2017, in line with our capital guidance, reflecting a USD 0.6 billion increase in CET1 capital and a USD 20.1 billion increase in risk-weighted assets (RWA).

RWA increased by USD 20.1 billion to USD 263.7 billion as of 31 December 2018, primarily due to a USD 19.1 billion increase in methodology, policy changes and model updates.

→ **Refer to the "Investment Bank," "Corporate Center" and "Capital management" sections of this report for more information**

Common equity tier 1 leverage ratio / leverage ratio denominator

Our CET1 leverage ratio was 3.77%, an increase of 0.08 percentage points compared with 31 December 2017, slightly above our guidance of approximately 3.7%, reflecting the aforementioned increase in CET1 capital and a USD 4.4 billion decrease in the leverage ratio denominator (LRD).

The LRD decreased by USD 4.4 billion to USD 904.6 billion as of 31 December 2018, primarily driven by decreases from currency effects of USD 12.1 billion and incremental netting and collateral mitigation as well as policy changes of USD 1.5 billion, partly offset by a USD 9.1 billion increase in asset size and other.

→ **Refer to the "Investment Bank," "Corporate Center" and "Capital management" sections of this report for more information**

Going concern leverage ratio

Our going concern leverage ratio was 5.1%, an increase of 0.4 percentage points compared with 31 December 2017, reflecting a USD 3.3 billion increase in going concern capital, partly offset by the aforementioned decrease in LRD.

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

Net new money and invested assets

Management's discussion and analysis on net new money and invested assets is provided in the "Global Wealth Management" and "Asset Management" sections of this report.

Seasonal characteristics

Our revenues may show seasonal patterns, notably in the Investment Bank and Global Wealth Management. These business divisions typically show the highest client activity levels in the first quarter, with lower levels throughout the rest of the year, especially during the summer months and end-of-year holiday season. Other seasonal factors that may affect our businesses include annual tax payments (which are concentrated in the second quarter in the US) and asset withdrawals, which tend to occur in the fourth quarter.

Return on equity

	As of or for the year ended		
USD million, except where indicated	**31.12.18**	31.12.17	31.12.16
Net profit			
Net profit attributable to shareholders	**4,516**	969	3,348
Amortization and impairment of intangible assets	**65**	71	93
Pre-tax adjusting items[1,2]	**73**	944	1,230
Tax effect on adjusting items[3]	**(16)**	(208)	(271)
Adjusted net profit attributable to shareholders	**4,638**	1,776	4,400
of which: deferred tax (expense) / benefit[4]	***(425)***	*(3,414)*	*43*
Adjusted net profit attributable to shareholders excluding deferred tax expense / benefit	**5,062**	5,190	4,357
Equity			
Equity attributable to shareholders	**52,928**	52,495	52,916
Less: goodwill and intangible assets	**6,647**	6,563	6,442
Tangible equity attributable to shareholders	**46,281**	45,932	46,474
of which: DTAs not eligible as common equity tier 1 capital[5]	***6,693***	*6,826*	*10,059*
Tangible equity attributable to shareholders excluding DTAs	**39,588**	39,106	36,415
Common equity tier 1 capital	**34,119**	33,516	30,156

Return on equity			
Return on equity (%)	**8.6**	1.8	6.1
Return on tangible equity (%)	**10.0**	2.2	7.1
Adjusted return on tangible equity (%)[1]	**10.1**	3.7	9.1
Adjusted return on tangible equity excluding deferred tax expense / benefit and DTAs (%)[1,6]	**12.9**	13.7	11.3
Return on common equity tier 1 capital (%)[7]	**13.1**	3.0	10.9

1 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 2 Refer to the “Performance by business division and Corporate Center unit − reported and adjusted” table in this section for more information. 3 Generally reflects an indicative tax rate of 22% on pre-tax adjusting items. 4 Deferred tax expense / benefit in respect to taxable profits and any remeasurements of DTAs, such as the net write-down due to the Tax Cuts and Jobs Act enacted in the fourth quarter of 2017. 5 DTAs that do not qualify as common equity tier 1 (CET1) capital, reflecting DTAs recognized for tax loss carry-forwards of USD 6,107 million as of 31 December 2018 (31 December 2017: USD 5,947 million; 31 December 2016: USD 8,256 million) as well as DTAs on temporary differences, excess over threshold of USD 586 million as of 31 December 2018 (31 December 2017: USD 879 million; 31 December 2016: USD 1,803 million), in accordance with Swiss SRB rules. Refer to the “Capital management” section of this report for more information. 6 Calculated as adjusted net profit / loss attributable to shareholders excluding deferred tax expense / benefit, such as the net write-down due to the Tax Cuts and Jobs Act enacted in the fourth quarter of 2017, divided by average tangible equity attributable to shareholders excluding any DTAs that do not qualify as CET1 capital. 7 Calculated as net profit / loss attributable to shareholders divided by average CET1 capital.

Net new money[1]

	For the year ended		
USD billion	**31.12.18**	31.12.17	31.12.16
Global Wealth Management	**24.7**	44.8	43.0
Asset Management	**32.2**	59.5	(16.2)
of which: excluding money market flows	***24.8***	*48.7*	*(23.0)*
of which: money market flows	***7.5***	*10.8*	*6.8*

1 Net new money excludes interest and dividend income.

Invested assets

	As of			% change from
USD billion	**31.12.18**	31.12.17	31.12.16	31.12.17
Global Wealth Management	**2,260**	2,403	2,060	(6)
Asset Management	**781**	796	645	(2)
of which: excluding money market funds	***696***	*719*	*580*	*(3)*
of which: money market funds	***85***	*78*	*65*	*9*

2017 compared with 2016

Results

We recorded net profit attributable to shareholders of USD 969 million in 2017, which included a net tax expense of USD 4,305 million, mainly driven by a deferred tax expense of USD 3,414 million, primarily related to a net write-down of DTAs in respect of the US federal corporate tax reduction included in the TCJA enacted in the fourth quarter of 2017. In 2016, net profit attributable to shareholders was USD 3,348 million, which included a net tax expense of USD 777 million.

Profit before tax increased by USD 1,142 million, or 27%, to USD 5,351 million, reflecting higher operating income and a reduction in operating expenses. Operating income increased by USD 893 million, or 3%, mainly due to USD 929 million higher net fee and commission income, primarily in Global Wealth Management. Operating expenses decreased by USD 247 million, or 1%, mainly due to USD 568 million lower general and administrative expenses, primarily reflecting USD 371 million lower net expenses for provisions for litigation, regulatory and similar matters.

In addition to reporting our results in accordance with International Financial Reporting Standards (IFRS), we report adjusted results that exclude items that management believes are not representative of the underlying performance of our businesses. Such adjusted results are non-GAAP financial measures as defined by SEC regulations. For the purpose of determining adjusted results for 2017, we excluded gains of USD 153 million on sale of subsidiaries and businesses, gains of USD 137 million on sale of financial assets at fair value through OCI, net foreign currency translation losses of USD 16 million, expenses of USD 26 million related to the modification of terms for DCCP awards granted for the performance years 2012 and 2013, and net restructuring expenses of USD 1,192 million. For 2016, we excluded gains of USD 213 million on sale of financial assets at fair value through OCI, gains of USD 123 million on sale of real estate, gains of USD 21 million related to investments in associates, net foreign currency translation losses of USD 84 million, losses of USD 24 million on sales of subsidiaries and businesses, and net restructuring expenses of USD 1,479 million.

On this adjusted basis, profit before tax increased by USD 856 million, or 16%, to USD 6,295 million, reflecting USD 869 million higher adjusted operating income and USD 13 million higher adjusted operating expenses.

Operating income

Total operating income was USD 29,622 million, compared with USD 28,729 million. On an adjusted basis, total operating income increased by USD 869 million, or 3%, to USD 29,349 million, mainly reflecting an increase of USD 929 million in net fee and commission income.

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

Total combined net interest income and other net income from fair value changes on financial instruments increased by USD 211 million to USD 11,721 million.

Global Wealth Management

In Global Wealth Management, net interest income increased by USD 260 million to USD 4,103 million, primarily due to an increase in average margin on deposits as well as higher loan volumes, partly offset by higher funding costs for long-term debt that contributes to total loss-absorbing capacity and lower banking book interest income.

Transaction-based income from foreign exchange and other intermediary activity was broadly stable.

Personal & Corporate Banking

Personal & Corporate Banking net interest income decreased by USD 98 million to USD 2,127 million, mainly due to higher funding costs for long-term debt that contributes to total loss-absorbing capacity and lower banking book interest income. This was partly offset by higher deposit revenues.

Transaction-based income from foreign exchange and other intermediary activity increased by USD 46 million to USD 383 million, mainly due to higher revenues from foreign exchange transactions.

Investment Bank

In the Investment Bank, net interest income and other net income from fair value changes on financial instruments was broadly stable at USD 4,363 million, reflecting a USD 257 million increase in Corporate Client Solutions, mainly in Equity Capital Markets and Risk Management, which was almost entirely offset by a USD 224 million decrease in Investor Client Services. This decrease reflected lower revenues in Foreign Exchange, Rates and Credit, partly offset by higher revenues in Equities.

Corporate Center

In Corporate Center, net interest income and other net income from fair value changes on financial instruments decreased by USD 32 million to negative USD 278 million, mainly due to a USD 66 million decrease in Corporate Center – Group ALM. This was largely offset by an increase of USD 47 million in Corporate Center – Services, mainly reflecting higher treasury-related income from Corporate Center – Group ALM.

Credit loss expense / recovery

The net credit loss expense was USD 131 million compared with USD 38 million, mainly reflecting USD 81 million higher expenses in the Investment Bank, primarily resulting from a margin loan to a single client following a significant decrease in the value of the collateral.

Net fee and commission income

Net fee and commission income increased by USD 929 million to USD 17,522 million.

Fees for portfolio management and related services increased by USD 597 million to USD 7,666 million, primarily driven by Global Wealth Management, mainly related to higher invested assets.

Underwriting fees increased by USD 264 million to USD 1,003 million, largely due to higher equity underwriting revenues, mainly in the Investment Bank.

Other income

Other income was USD 511 million compared with USD 663 million. Excluding the aforementioned adjusting items, which consist of gains on sales of subsidiaries and businesses, gains on sales of financial assets at fair value through OCI, gains related to investments in associates and net foreign currency translation losses, adjusted other income decreased by USD 178 million. This decrease was mainly due to lower gains on sale of financial assets at fair value through OCI and a decrease in other sundry income.

Operating expenses

Total operating expenses decreased by USD 247 million, or 1%, to USD 24,272 million. Excluding net restructuring expenses of USD 1,192 million, compared with USD 1,479 million in 2016, and expenses of USD 26 million in 2017 in the Investment Bank related to the modification of terms for DCCP awards granted for the performance years 2012 and 2013, adjusted total operating expenses were broadly stable at USD 23,054 million.

Personnel expenses

Personnel expenses increased by USD 286 million to USD 16,199 million and included net restructuring expenses of USD 545 million in 2017, mainly related to our transitioning activities to nearshore and offshore locations, compared with USD 763 million in 2016. In addition, 2017 included expenses of USD 26 million in the Investment Bank related to the modification of terms for DCCP awards granted for the performance years 2012 and 2013. On an adjusted basis, personnel expenses increased by USD 478 million to USD 15,628 million.

Adjusted expenses for salaries decreased by USD 63 million to USD 5,801 million, mainly reflecting our nearshoring and offshoring initiatives and cost reduction programs.

Adjusted expenses for total variable compensation increased by USD 119 million, reflecting an increase of USD 257 million in expenses for current-year awards, partly offset by USD 138 million lower expenses for awards related to prior years.

Adjusted other personnel expenses increased by USD 98 million, primarily due to USD 58 million higher social security expenses.

Financial advisor variable compensation increased by USD 324 million to USD 4,064 million, mainly reflecting higher compensable revenues and changes we announced in 2016 to our financial advisor compensation model.

General and administrative expenses

General and administrative expenses decreased by USD 568 million to USD 6,949 million. Excluding net restructuring expenses of USD 640 million compared with USD 705 million, adjusted general and administrative expenses decreased by USD 503 million, primarily reflecting USD 371 million lower net expenses for provisions for litigation, regulatory and similar matters, a decrease in expenses for marketing and public relations, and lower professional fees. In addition, the net expense for the UK and German bank levy was USD 20 million in 2017, compared with USD 124 million, primarily because 2017 included an USD 85 million credit related to prior years.

Tax

We recognized an income tax expense of USD 4,305 million for 2017, which included a net Swiss tax expense of USD 562 million and a net non-Swiss tax expense of USD 3,743 million.

The Swiss tax expense included a current tax expense of USD 455 million related to taxable profits earned by Swiss subsidiaries, against which no losses were available to offset. In addition, it included a deferred tax expense of USD 107 million, which reflected a net decrease in DTAs previously recognized in relation to tax losses carried forward and temporary differences.

The non-Swiss tax expense included a current tax expense of USD 435 million related to taxable profits earned by non-Swiss subsidiaries and branches, against which no losses were available to offset. In addition, it included a deferred tax expense of USD 3,308 million, which reflected a net decrease in DTAs previously recognized in relation to tax losses carried forward and temporary differences and mainly related to the write-down of US DTAs resulting from the reduction in the federal corporate tax rate to 21% from 35% after the enactment of the TCJA during the fourth quarter of 2017.

The tax expense of USD 4,305 million for 2017 was higher than the tax expense of USD 777 million in 2016, mainly because 2017 included a net write-down of DTAs of USD 2,939 million resulting from the aforementioned reduction in the US federal corporate tax rate.

Total comprehensive income attributable to shareholders

In 2017, total comprehensive income attributable to shareholders was positive USD 1,787 million, reflecting net profit of USD 969 million and positive OCI of USD 818 million.

Foreign currency translation OCI was USD 1,564 million, mainly resulting from the strengthening of the Swiss franc, euro and British pound against the US dollar. In 2016, foreign currency translation OCI was negative USD 458 million.

Defined benefit plan OCI was positive USD 296 million compared with negative USD 829 million. Total pre-tax OCI related to UK defined benefit plans was positive USD 305 million, reflecting OCI gains of USD 215 million from the return on plan assets and an OCI gain of USD 90 million due to a net decrease in the DBO. The OCI gain of USD 90 million from the net DBO decrease reflected gains of USD 82 million related to changes in life expectancy assumptions, a gain of USD 60 million due to a decline in the rate of pension increase and an OCI experience gain of USD 50 million (reflecting the effects of differences between the previous actuarial assumptions and what actually occurred), partly offset by a loss of USD 102 million from a decrease in the applicable discount rate.

Total pre-tax OCI related to the Swiss defined benefit plan was negative USD 79 million. This reflected an OCI gain of USD 1,640 million from the return on plan assets, which was more than offset by an OCI loss of USD 1,417 million, representing an increase in the excess of the pension surplus over the estimated future economic benefit, and an OCI loss of USD 301 million due to the DBO remeasurement. The OCI loss of USD 301 million related to the DBO remeasurement mainly reflected a loss of USD 165 million from a decrease in the applicable discount rate and an OCI experience loss of USD 154 million, reflecting the effects of differences between the previous actuarial assumptions and what actually occurred.

OCI related to cash flow hedges was negative USD 635 million, primarily reflecting a decrease in unrealized gains on hedging derivatives that resulted from increases in long-term interest rates. In 2016, OCI related to cash flow hedges was negative USD 684 million.

OCI related to own credit on financial liabilities designated at fair value was negative USD 317 million compared with negative USD 130 million, and mainly reflected a tightening of credit spreads in 2017.

OCI associated with financial assets measured at fair value through OCI was negative USD 91 million compared with negative USD 58 million and primarily reflected the reclassification of net gains from OCI to the income statement upon sale of assets, partly offset by net unrealized gains following decreases in the relevant long-term interest rates.

Net profit attributable to non-controlling interests

Net profit attributable to non-controlling interests was USD 77 million in 2017 compared with USD 84 million in the prior year.

Global Wealth Management

Global Wealth Management[1]

USD million, except where indicated	As of or for the year ended 31.12.18	31.12.17	31.12.16	% change from 31.12.17
Results				
Net interest income	**4,310**	4,103	3,843	5
Recurring net fee income[2]	**9,585**	8,968	8,472	7
Transaction-based income[3]	**2,911**	3,159	2,887	(8)
Other income	**151**	65	55	133
Income	**16,956**	16,295	15,257	4
Credit loss (expense) / recovery[4]	**(15)**	(8)	(8)	89
Total operating income	**16,941**	16,287	15,249	4
Personnel expenses	**7,683**	7,674	7,254	0
Salaries and other personnel costs	**3,628**	3,610	3,514	1
Financial advisor variable compensation[5,6]	**3,470**	3,310	2,931	5
Compensation commitments with recruited financial advisors[5,7]	**584**	754	808	(23)
General and administrative expenses	**1,724**	1,263	1,221	36
Services (to) / from Corporate Center and other business divisions	**3,852**	3,726	3,627	3
of which: services from CC – Services	***3,740***	*3,626*	*3,520*	*3*
Depreciation and impairment of property, equipment and software	**4**	4	4	(2)
Amortization and impairment of intangible assets	**50**	49	54	2
Total operating expenses	**13,313**	12,717	12,159	5
Business division operating profit / (loss) before tax	**3,628**	3,571	3,090	2
Adjusted results[8]				
Total operating income as reported	**16,941**	16,287	15,249	4
of which: gain / (loss) on sale of financial assets at fair value through OCI[9]			*31*	
of which: gain / (loss) on sale of subsidiaries and businesses			*(24)*	
of which: gains related to investments in associates	***101***			
Total operating income (adjusted)	**16,840**	16,287	15,242	3
Total operating expenses as reported	**13,313**	12,717	12,159	5
	34	*39*	*61*	

of which: personnel-related restructuring expenses[10]				
of which: non-personnel-related restructuring expenses[10]	***16***	*75*	*55*	
of which: restructuring expenses allocated from CC – Services[10]	***209***	*474*	*478*	
of which: gain related to changes to the Swiss pension plan	***(66)***			
Total operating expenses (adjusted)	**13,120**	12,129	11,564	8
Business division operating profit / (loss) before tax as reported	**3,628**	3,571	3,090	2
Business division operating profit / (loss) before tax (adjusted)	**3,720**	4,159	3,678	(11)
Performance measures[11]				
Pre-tax profit growth (%)	**1.6**	15.5	(13.4)	
Cost / income ratio (%)	**78.5**	78.0	79.7	
Net new money growth (%)	**1.0**	2.2	2.2	
Net margin on invested assets (bps)[12]	**15**	16	15	(5)
Adjusted performance measures[8,11]				
Pre-tax profit growth (%)	**(10.6)**	13.1	(3.8)	
Cost / income ratio (%)	**77.8**	74.4	75.8	
Net new money growth (%)	**1.0**	2.2	2.2	
Net margin on invested assets (bps)[13]	**16**	19	18	(16)

82

Global Wealth Management (continued)[1]

	As of or for the year ended			% change from
USD million, except where indicated	**31.12.18**	31.12.17	31.12.16	31.12.17
Additional information				
Recurring income[14]	**13,894**	13,072	12,315	6
Recurring income as a percentage of income (%)	**81.9**	80.2	80.7	
Average attributed equity (USD billion)[15]	**13.4**	13.0	6.1	3
Return on attributed equity (%)[15]	**27.0**	27.5	50.7	
Return on attributed tangible equity (%)[15]	**44.0**	45.5		
Risk-weighted assets (USD billion)[15]	**60.5**	58.1	48.7	4
of which: held by Global Wealth Management (USD billion)	***58.2***	*55.9*	*48.7*	*4*
of which: held by CC – Group ALM on behalf of Global Wealth Management (USD billion)[16]	***2.3***	*2.3*		*2*
Leverage ratio denominator (USD billion)[15]	**270.6**	268.7	180.4	1
of which: held by Global Wealth Management (USD billion)	***207.4***	*205.0*	*180.4*	*1*
of which: held by CC – Group ALM on behalf of Global Wealth Management (USD billion)[16]	***63.2***	*63.7*		*(1)*
Goodwill and intangible assets (USD billion)	**5.2**	5.1	5.0	2
Net new money (USD billion)	**24.7**	44.8	43.0	
Invested assets (USD billion)	**2,260**	2,403	2,060	(6)
Gross margin on invested assets (bps)	**71**	73	75	(3)
Adjusted gross margin on invested assets (bps)	**70**	73	75	(3)
Client assets (USD billion)	**2,519**	2,661	2,297	(5)
Loans, gross (USD billion)[17]	**174.7**	172.5	151.7	1
Due to customers (USD billion)[17]	**271.8**	278.0	278.1	(2)
Recruitment loans to financial advisors[5]	**2,296**	2,619	3,033	(12)
	994	580	462	71

Other loans to financial advisors[5]				
Personnel (full-time equivalents)	**23,618**	23,177	23,247	2
Advisors (full-time equivalents)	**10,677**	10,616	10,884	1

1 Comparative figures in this table have been restated for the change of the presentation currency from Swiss francs to US dollars with assets, liabilities and total equity translated to US dollars at 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. Comparatives may additionally differ due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 2 Recurring net fee income consists of fees for services provided on an ongoing basis such as portfolio management fees, asset-based investment fund fees, custody fees and account-keeping fees, which are generated on client assets. 3 Transaction-based income consists of the non-recurring portion of net fee and commission income, mainly consisting of brokerage and transaction-based investment fund fees as well as credit card fees and fees for payment transactions, together with Other net income from fair value changes on financial instruments. 4 Upon adoption of IFRS 9 effective 1 January 2018, credit loss expenses include credit losses on recruitment loans to financial advisors previously recognized in personnel expenses. Prior periods were not restated for this change. 5 Relates to licensed professionals with the ability to provide investment advice to clients in the Americas. 6 Financial advisor variable compensation consists of formulaic compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated on the basis of financial advisor productivity, firm tenure, new assets and other variables. 7 Compensation commitments with recruited financial advisors represent expenses related to compensation commitments granted to financial advisors at the time of recruitment that are subject to vesting requirements. 8 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 9 Includes a gain on the sale of our investment in Visa Europe in 2016. Figures presented for periods prior to 2018 relate to financial assets available for sale. 10 Reflects restructuring expenses related to legacy cost programs as well as expenses for new restructuring initiatives in 2018. 11 Refer to the “Performance targets and measurement” section of this report for the definitions of our performance measures. 12 Calculated as operating profit before tax / average invested assets. 13 Calculated as adjusted operating profit before tax / average invested assets. 14 Recurring income consists of net interest income and recurring net fee income. 15 Refer to the “Capital management” section of this report for more information. 16 Represents risk-weighted assets and leverage ratio denominator held by Corporate Center − Group ALM that are directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to “Equity attribution and return on attributed equity” in the “Capital management” section of this report for more information. 17 Loans and Due to customers in this table include customer brokerage receivables and payables, respectively, which with the adoption of IFRS 9 effective 1 January 2018 have been reclassified to a separate reporting line on the balance sheet.

Regional breakdown of performance measures[1]

As of or for the year ended 31.12.18	Americas	EMEA	Asia Pacific	Switzerland	Total of regions[2]	*of which: ultra high*

USD billion, except where indicated						*net worth (UHNW)*
Net new money	**(4.1)**	**10.4**	**17.3**	**3.2**	**26.7**	*24.8*
Net new money growth (%)	**(0.3)**	**1.9**	**4.5**	**1.5**	**1.1**	*2.1*
Invested assets	**1,200**	**500**	**357**	**200**	**2,257**	*1,127*
Loans, gross	**59.5**[3]	**37.5**	**42.3**	**35.0**	**174.2**	
Client advisors (full-time equivalents)	**6,850**	**1,837**	**1,138**	**737**	**10,561**	*1,043*[4]

1 Refer to the “Performance targets and measurement” section of this report for the definitions of our performance measures. 2 Excluding minor functions with 116 advisors, USD 3 billion of invested assets, USD 0.5 billion of loans and USD 2 billion of net new money outflows in 2018. 3 Loans include customer brokerage receivables, which with the adoption of IFRS 9 effective 1 January 2018 have been reclassified to a separate reporting line on the balance sheet. 4 Represents advisors who exclusively serve ultra high net worth clients in a globally managed unit.

2018 compared with 2017

Results

Profit before tax increased by USD 57 million, or 2%, to USD 3,628 million, including a USD 101 million valuation gain on our equity ownership in SIX related to the sale of SIX Payment Services to Worldline and a credit of USD 66 million related to our Swiss pension plan. Adjusted profit before tax decreased by USD 439 million, or 11%, to USD 3,720 million, reflecting higher operating expenses, partly offset by higher operating income.

Operating income

Total operating income increased by USD 654 million, or 4%, to USD 16,941 million. Excluding the aforementioned valuation gain, adjusted total operating income increased by USD 553 million, or 3%, to USD 16,840 million, mainly driven by higher recurring net fee income and net interest income, partly offset by lower transaction-based income.

Net interest income increased by USD 207 million to USD 4,310 million, due to an increase in average margin on deposits, as well as higher loan volumes, partly offset by the expiration of an interest rate hedge portfolio at the end of 2017, lower net income from Group structural risk management activities and higher funding costs for long-term debt that contributes to total loss-absorbing capacity.

→ **Refer to “Corporate Center – Group Asset and Liability Management” in this section of the report for more information on net income from Group structural risk management**

Recurring net fee income increased by USD 617 million to USD 9,585 million, predominantly driven by higher average invested assets and an increase in mandate penetration during the year.

Transaction-based income decreased by USD 248 million to USD 2,911 million, mainly due to lower client activity in the Americas and in Asia Pacific.

Other income increased by USD 86 million to USD 151 million. Excluding the aforementioned valuation gain, adjusted other income decreased by USD 15 million to USD 50 million.

Operating expenses

Total operating expenses increased by USD 596 million, or 5%, to USD 13,313 million and adjusted total operating expenses by USD 991 million, or 8%, to USD 13,120 million.

Personnel expenses increased by USD 9 million to USD 7,683 million and, excluding the aforementioned credit related to changes to our Swiss pension plan, adjusted personnel expenses increased by USD 79 million to USD 7,714 million. This increase was mainly due to higher salaries and staff levels, partly offset by lower variable compensation not related to financial advisors. In the Americas, higher financial advisor variable compensation was offset by lower expenses for compensation commitments to recruited financial advisors.

General and administrative expenses increased by USD 461 million to USD 1,724 million and adjusted general and administrative expenses increased by USD 520 million to USD 1,708 million, predominantly driven by higher provisions for litigation matters and higher regulatory-related expenses.

Net expenses for services from Corporate Center and other business divisions increased by USD 126 million to USD 3,852 million and adjusted net expenses for services increased by USD 392 million to USD 3,643 million, mainly reflecting higher expenses from Group Technology and Group Risk Control.

Cost / income ratio

The cost / income ratio increased to 78.5% from 78.0%. On an adjusted basis, the ratio increased to 77.8% from 74.4% and was above our 2018 target range of 65–75%.

Net new money

Net new money inflows were USD 24.7 billion compared with inflows of USD 44.8 billion. The net new money growth rate was 1.0% compared with 2.2%, and was below our 2018 target range of 2–4%. Net new money was predominantly driven by inflows in Asia Pacific and EMEA, partly offset by outflows in the Americas, which included a single outflow of USD 4.5 billion from a corporate employee share program.

Invested assets

Invested assets decreased by USD 143 billion to USD 2,260 billion, due to negative market performance of USD 144 billion, negative currency effects of USD 19 billion and reclassifications of USD 12 billion. This was partly offset by net new money inflows of USD 25 billion and an increase of USD 7 billion related to the acquisition of subsidiaries and businesses. Mandate penetration increased to 33.6% from 32.9%.

Personnel

Global Wealth Management employed 23,618 personnel as of 31 December 2018, an increase of 441 compared with 23,177 personnel as of 31 December 2017. The number of advisors increased by 61 to 10,677.

2017 compared with 2016

Results

Profit before tax increased by USD 481 million, or 16%, to USD 3,571 million and adjusted profit before tax increased by USD 481 million, or 13%, to USD 4,159 million, reflecting higher operating income, partly offset by higher operating expenses.

Operating income

Total operating income increased by USD 1,038 million, or 7%, to USD 16,287 million and adjusted total operating income increased by USD 1,045 million, or 7%, to USD 16,287 million, driven by increases across all income lines.

Net interest income increased by USD 260 million to USD 4,103 million, primarily due to an increase in average margin on deposits as well as higher loan volumes, partly offset by higher funding costs for long-term debt that contributes to total loss-absorbing capacity and lower banking book interest income.

→ **Refer to "Corporate Center – Group Asset and Liability Management" in this section of the report for more information on net income from Group structural risk management**

Recurring net fee income increased by USD 496 million to USD 8,968 million, predominantly driven by higher average invested assets and an increase in mandate penetration. This was partly offset by the effects of cross-border outflows and shifts into retrocession-free products.

Transaction-based income increased by USD 272 million to USD 3,159 million, across all regions, mainly due to increased client activity, most notably in Asia Pacific and in the Americas.

Other income increased by USD 10 million to USD 65 million.

Operating expenses

Total operating expenses increased by USD 558 million, or 5%, to USD 12,717 million, and adjusted total operating expenses increased by USD 565 million or 5%, to USD 12,129 million.

Personnel expenses increased by USD 420 million to USD 7,674 million and adjusted personnel expenses increased by USD 442 million to USD 7,635 million. This increase was mainly due to higher variable compensation, partly offset by lower expenses for compensation commitments to recruited financial advisors in the Americas. The increase of financial advisor variable compensation reflects higher compensable revenues as well as changes we announced in 2016 to our financial advisor compensation model.

General and administrative expenses increased by USD 42 million to USD 1,263 million and adjusted general and administrative expenses increased by USD 23 million to USD 1,189 million, predominantly driven by higher provisions for litigation matters.

Net expenses for services from Corporate Center and other business divisions increased by USD 99 million to USD 3,726 million and adjusted net expenses for services increased by USD 103 million to USD 3,251 million, mainly reflecting higher costs for strategic and regulatory initiatives and higher expenses from control functions.

Cost / income ratio

The cost / income ratio decreased to 78.0% from 79.7%. On an adjusted basis, the ratio decreased to 74.4% from 75.8% and was within our 2017 target range of 65–75%.

Net new money

Net new money inflows were USD 44.8 billion compared with inflows of USD 43.0 billion. The net new money growth rate remained stable at 2.2% and was within our 2017 target range of 2–4%. Net new money was predominantly driven by inflows in Asia Pacific and Europe, Middle East and Africa (EMEA), partly offset by outflows in the Americas. Cross-border-related net outflows were USD 12 billion compared with USD 14 billion, mainly driven by outflows in EMEA. In addition, we incurred net outflows of USD 8 billion related to the introduction of fees on euro deposit concentrations in EMEA and Switzerland.

Invested assets

Invested assets increased by USD 343 billion to USD 2,403 billion, mainly due to positive market performance of USD 251 billion, positive currency effects of USD 48 billion and net new money inflows of USD 45 billion. Mandate penetration increased to 32.9% from 31.1%.

Personnel

Global Wealth Management employed 23,177 personnel as of 31 December 2017, a decrease of 70 compared with 23,247 personnel as of 31 December 2016. The number of advisors decreased by 268 to 10,616.

Financial and operating performance
Personal & Corporate Banking

Personal & Corporate Banking

Personal & Corporate Banking – in Swiss francs[1]

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.18**	31.12.17	31.12.16	31.12.17
Results				
Net interest income	**2,058**	2,086	2,199	(1)
Recurring net fee income[2]	**625**	593	553	5
Transaction-based income[3]	**1,086**	1,104	1,028	(2)
Other income	**419**	86	211	386
Income	**4,187**	3,869	3,990	8
Credit loss (expense) / recovery	**(55)**	(19)	(6)	186
Total operating income	**4,133**	3,850	3,984	7
Personnel expenses	**786**	836	845	(6)
General and administrative expenses	**279**	290	285	(4)
Services (to) / from Corporate Center and other business divisions	**1,181**	1,133	1,080	4
of which: services from CC – Services	***1,255***	*1,227*	*1,186*	*2*
Depreciation and impairment of property, equipment and software	**14**	13	15	8
Amortization and impairment of intangible assets	**0**	0	0	
Total operating expenses	**2,260**	2,272	2,224	(1)
Business division operating profit / (loss) before tax	**1,873**	1,578	1,760	19
Adjusted results[4]				
Total operating income as reported	**4,133**	3,850	3,984	7
of which: gains related to investments in associates	***359***		*21*	
of which: gain on sale of financial assets at fair value through OCI[5]			*102*	
Total operating income (adjusted)	**3,774**	3,850	3,861	(2)
Total operating expenses as reported	**2,260**	2,272	2,224	(1)
of which: personnel-related restructuring expenses[6]	***4***	*7*	*4*	
of which: non-personnel-related restructuring expenses[6]	***0***	*0*	*0*	
of which: restructuring expenses allocated from CC – Services[6]	***42***	*96*	*113*	
of which: gain related to changes to the Swiss pension plan	***(35)***			
Total operating expenses (adjusted)	**2,248**	2,169	2,107	4
Business division operating profit / (loss) before tax as reported	**1,873**	1,578	1,760	19
	1,526	1,681	1,754	(9)

Business division operating profit / (loss) before tax (adjusted)				
Performance measures[7]				
Pre-tax profit growth (%)	**18.7**	(10.3)	6.9	
Cost / income ratio (%)	**54.0**	58.7	55.7	
Net interest margin (bps)	**157**	157	163	0
Net new business volume growth for Personal Banking (%)[8]	**4.2**	4.0	3.1	
Adjusted performance measures[4,7]				
Pre-tax profit growth (%)	**(9.2)**	(4.2)	4.3	
Cost / income ratio (%)	**58.7**	56.1	54.5	
Net interest margin (bps)	**157**	157	163	0
Net new business volume growth for Personal Banking (%)[8]	**4.2**	4.0	3.1	

86

Personal & Corporate Banking – in Swiss francs (continued)[1]

	As of or for the year enc		
CHF million, except where indicated	**31.12.18**	31.12.17	31.12
Additional information			
Average attributed equity (CHF billion)[9]	**6.4**	6.1	
Return on attributed equity (%)[9]	**29.1**	25.8	4
Return on attributed tangible equity (%)[9]	**29.1**	25.8	
Risk-weighted assets (CHF billion)[9]	**57.0**	49.1	4
of which: held by Personal & Corporate Banking (CHF billion)	***55.9***	*48.0*	*4*
of which: held by CC – Group ALM on behalf of Personal & Corporate Banking (CHF billion)[10]	***1.1***	*1.0*	
Leverage ratio denominator (CHF billion)[9]	**190.1**	186.9	15
of which: held by Personal & Corporate Banking (CHF billion)	***149.6***	*148.0*	*15*
of which: held by CC – Group ALM on behalf of Personal & Corporate Banking (CHF billion)[10]	***40.5***	*38.9*	
Business volume for Personal Banking (CHF billion)	**156**	155	1
Net new business volume for Personal Banking (CHF billion)	**6.6**	6.0	
Client assets (CHF billion)[11]	**638**	667	6
Loans, gross (CHF billion)	**131.0**	131.4	13
Due to customers (CHF billion)	**141.7**	135.9	13
Secured loan portfolio as a percentage of total loan portfolio, gross (%)	**92.0**	92.7	9
Impaired loan portfolio as a percentage of total loan portfolio, gross (%)[12]	**1.3**	0.6	
Personnel (full-time equivalents)	**5,183**	5,102	5,1

1 Comparative figures in this table may differ from those originally published in quarterly and annual to adjustments following organizational changes, restatements due to the retrospective adoption of n accounting standards or changes in accounting policies, and events after the reporting period. 2 Re fee income consists of fees for services provided on an ongoing basis such as portfolio management f asset-based investment fund fees, custody fees and account-keeping fees, which are generated on cl 3 Transaction-based income comprises the non-recurring portion of net fee and commission income, consisting of brokerage and transaction-based investment fund fees as well as credit card fees and fe payment transactions, together with net income from fair value changes on financial instruments. 4 results are non-GAAP financial measures as defined by SEC regulations. 5 Includes a gain on the sal investment in Visa Europe in 2016. Figures presented for periods prior to 2018 relate to financial asse for sale. 6 Reflects restructuring expenses related to legacy cost programs. 7 Refer to the "Perfor and measurement" section of this report for the definitions of our performance measures. 8 Calcula new business volume for the period / business volume at the beginning of the period. 9 Refer to the management" section of this report for more information. 10 Represents risk-weighted assets and l denominator held by Corporate Center – Group ALM that are directly associated with activity manage behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and ret attributed equity" in the "Capital management" section of this report for more information. 11 Clien comprised of invested assets and other assets held purely for transactional purposes or custody only. measure net new money for Personal & Corporate Banking. 12 Refer to the "Risk management and section of this report for more information on (credit-)impaired exposures.

2018 compared with 2017

Results

Profit before tax increased by CHF 295 million, or 19%, to CHF 1,873 million, predominantly reflecting a CHF 359 million valuation gain on our equity ownership in SIX related to the sale of SIX Payment Services to Worldline. Adjusted profit before tax decreased by CHF 155 million, or 9%, to CHF 1,526 million, due to lower operating income and higher operating expenses.

Effective from 1 January 2018, we have reclassified certain expenses for clearing, credit card add-on services and the client loyalty program, which are incremental and incidental to revenues on a prospective basis, to better align these expenses with their associated revenues within operating income. This resulted in a CHF 66 million reduction in total operating income, mainly related to transaction-based income. Total operating expenses decreased by a broadly corresponding amount, primarily reflecting a reduction in general and administrative expenses.

Operating income

Total operating income increased by CHF 283 million, or 7%, to CHF 4,133 million, mainly reflecting the aforementioned valuation gain. Excluding this item, adjusted total operating income decreased by CHF 76 million to CHF 3,774 million, mainly reflecting lower net interest and transaction-based income as well as higher credit loss expenses, partly offset by higher recurring net fee income.

Net interest income decreased by CHF 28 million to CHF 2,058 million, mainly due to the expiration of an interest rate hedge portfolio at the end of 2017, as well as higher funding costs for long-term debt that contributes to total loss-absorbing capacity and lower banking book interest income. This was partly offset by higher deposit revenues.

Recurring net fee income increased by CHF 32 million to CHF 625 million, mainly reflecting higher custody and mandate revenues as well as higher fees from bundled products.

Transaction-based income decreased by CHF 18 million to CHF 1,086 million, mainly due to the aforementioned reclassification from expenses to revenues. The reclassification effect was partly offset by higher revenues from foreign exchange transactions, as well as higher fees received from Global Wealth Management, reflecting increased shift and referral volumes.

Other income increased by CHF 333 million to CHF 419 million, mainly due to the aforementioned valuation gain.

We recorded a net credit loss expense of CHF 55 million compared with CHF 19 million, reflecting higher expenses for newly credit-impaired positions, as well as lower net recoveries on existing credit-impaired positions, both predominantly in the Corporate Clients area. The adoption of IFRS 9 on 1 January 2018 had no material effect on net credit losses as stage 1 and 2 expected credit losses amounted to net CHF 0 million for 2018.

→ **Refer to "Credit risk" in the "Risk management and control" section of this report for more information on expected credit losses**

→ **Refer to "Note 1c Changes in accounting policies and comparability and transition effects from the adoption of IFRS 9, *Financial Instruments*" in the "Consolidated financial statements" section of this report for more information on the adoption of IFRS 9**

Operating expenses

Operating expenses were broadly unchanged at CHF 2,260 million, reflecting CHF 57 million lower restructuring expenses and a credit of CHF 35 million related to changes to our Swiss pension plan, partly offset by CHF 38 million higher expenses for provisions for litigation, regulatory and similar matters. Adjusted total operating expenses increased by CHF 79 million to CHF 2,248 million.

Personnel expenses decreased by CHF 50 million to CHF 786 million, mostly due to the aforementioned pension plan credit, and adjusted personnel expenses decreased by CHF 11 million to CHF 817 million, mainly reflecting lower variable compensation.

General and administrative expenses decreased by CHF 11 million to CHF 279 million, primarily reflecting the aforementioned reclassification from expenses to revenues, partly offset by higher expenses for provisions for litigation, regulatory and similar matters.

Net expenses for services from Corporate Center and other business divisions increased by CHF 48 million to CHF 1,181 million. Adjusted net expenses for services increased by CHF 101 million to CHF 1,138 million, mainly reflecting higher expenses from Group Technology as well as for strategic and regulatory initiatives.

Cost / income ratio

The cost / income ratio decreased to 54.0% from 58.7%, mainly due to the aforementioned valuation gain. On an adjusted basis, the ratio increased to 58.7% compared with 56.1% and remained within our 2018 target range of 50–60%.

Net interest margin

The net interest margin remained stable at 157 basis points on both a reported and adjusted basis as lower net interest income was offset by lower average loan volume, and remained within our 2018 target range of 150–165 basis points.

Net new business volume growth for personal banking

The net new business volume growth rate for our personal banking business was our best on record at 4.2% compared with 4.0%, above our 2018 target range of 1–4%. Net new client assets and, to a lesser extent, net new loans were positive.

Personnel

Personal & Corporate Banking employed 5,183 personnel as of 31 December 2018, an increase of 81 compared with 5,102 personnel as of 31 December 2017.

2017 compared with 2016

Results

Profit before tax decreased by CHF 182 million, or 10%, to CHF 1,578 million. Adjusted profit before tax decreased by CHF 73 million, or 4%, to CHF 1,681 million, due to slightly lower operating income and higher operating expenses.

Operating income

Total operating income decreased by CHF 134 million, or 3%, to CHF 3,850 million. 2016 included a gain on the sale of our investment in Visa Europe of CHF 102 million, as well as gains related to investments in associates of CHF 21 million. Excluding these items, adjusted total operating income decreased by CHF 11 million to CHF 3,850 million, mainly reflecting lower net interest income, partly offset by higher transaction-based income.

Net interest income decreased by CHF 113 million to CHF 2,086 million, mainly due to higher funding costs for long-term debt that contributes to total loss-absorbing capacity and lower banking book interest income. This was partly offset by higher deposit revenues.

Recurring net fee income increased by CHF 40 million to CHF 593 million, mainly reflecting higher custody and mandates revenues.

Transaction-based income increased by CHF 76 million to CHF 1,104 million, mainly reflecting higher revenues from foreign exchange and credit card transactions.

Other income decreased by CHF 125 million to CHF 86 million, mainly due to the aforementioned gains on the sale of our investment in Visa Europe and investments in associates.

We recorded a net credit loss expense of CHF 19 million compared with CHF 6 million, reflecting higher expenses for newly impaired positions, as well as lower net recoveries on existing impaired positions.

→ **Refer to "Credit risk" in the "Risk management and control" section of this report for more information on expected credit losses**

Operating expenses

Total operating expenses increased by CHF 48 million to CHF 2,272 million and adjusted total operating expenses increased by CHF 62 million to CHF 2,169 million.

Personnel expenses decreased by CHF 9 million to CHF 836 million and adjusted personnel expenses decreased by CHF 12 million to CHF 829 million, mainly reflecting lower salary costs due to a decrease in the number of employees and other cost saving initiatives.

General and administrative expenses slightly increased by CHF 5 million to CHF 290 million.

Net expenses for services from Corporate Center and other business divisions increased by CHF 53 million to CHF 1,133 million. Adjusted net expenses for services increased by CHF 70 million to CHF 1,037 million, mainly reflecting higher expenses for strategic and regulatory initiatives and from Group Operations.

Cost / income ratio

The cost / income ratio increased to 58.7% from 55.7%. On an adjusted basis, the ratio increased to 56.1% compared with 54.5% and remained within our 2017 target range of 50–60%.

Net interest margin

The net interest margin decreased 6 basis points to 157 basis points on both a reported and adjusted basis, and remained within our 2017 target range of 140–180 basis points.

Net new business volume growth for personal banking

The net new business volume growth rate for our personal banking business was 4.0% compared with 3.1% and remained within the upper level of our 2017 target range of 1–4%. Net new client assets and, to a lesser extent, net new loans were positive.

Personnel

Personal & Corporate Banking employed 5,102 personnel as of 31 December 2017, a decrease of 41 compared with 5,143 personnel as of 31 December 2016.

Personal & Corporate Banking – in US dollars[1]

	As of or for the year ended			% change from
USD million, except where indicated	**31.12.18**	31.12.17	31.12.16	31.12.17
Results				
Net interest income	**2,106**	2,127	2,225	(1)
Recurring net fee income[2]	**640**	605	560	6
Transaction-based income[3]	**1,112**	1,125	1,041	(1)
Other income	**420**	87	215	381
Income	**4,278**	3,945	4,042	8
Credit loss (expense) / recovery	**(56)**	(20)	(6)	180
Total operating income	**4,222**	3,925	4,035	8
Personnel expenses	**803**	852	855	(6)
General and administrative expenses	**285**	296	287	(4)
Services (to) / from Corporate Center and other business divisions	**1,208**	1,156	1,093	5
of which: services from CC – Services	***1,285***	*1,251*	*1,201*	*3*
Depreciation and impairment of property, equipment and software	**14**	13	15	8
Amortization and impairment of intangible assets	**0**	0	0	
Total operating expenses	**2,310**	2,317	2,250	0
Business division operating profit / (loss) before tax	**1,912**	1,607	1,785	19
Adjusted results[4]				
Total operating income as reported	**4,222**	3,925	4,035	8
of which: gains related to investments in associates	***359***		*21*	
of which: gain on sale of financial assets at fair value through OCI[5]			*105*	
Total operating income (adjusted)	**3,863**	3,925	3,909	(2)
Total operating expenses as reported	**2,310**	2,317	2,250	0
of which: personnel-related restructuring expenses[6]	***4***	*7*	*4*	
of which: non-personnel-related restructuring expenses[6]	***0***	*0*	*0*	
of which: restructuring expenses allocated from CC – Services[6]	***43***	*98*	*115*	
of which: gain related to changes to the Swiss pension plan	***(38)***			
Total operating expenses (adjusted)	**2,300**	2,212	2,132	4
Business division operating profit / (loss) before tax as reported	**1,912**	1,607	1,785	19
Business division operating profit / (loss) before tax (adjusted)	**1,563**	1,713	1,778	(9)

Performance measures[7]				
Pre-tax profit growth (%)	**18.9**	(10.0)	4.4	
Cost / income ratio (%)	**54.0**	58.7	55.7	
Net interest margin (bps)	**157**	157	162	0
Net new business volume growth for Personal Banking (%)[8]	**4.2**	4.2	3.2	
Adjusted performance measures[4,7]				
Pre-tax profit growth (%)	**(8.8)**	(3.7)	1.8	
Cost / income ratio (%)	**58.7**	56.1	54.4	
Net interest margin (bps)	**157**	157	162	0
Net new business volume growth for Personal Banking (%)[8]	**4.2**	4.2	3.2	

90

Personal & Corporate Banking – in US dollars (continued)[1]

	As of or for the year ended			% change from
USD million, except where indicated	**31.12.18**	31.12.17	31.12.16	31.12.17
Additional information				
Average attributed equity (USD billion)[9]	**6.6**	6.2	4.1	6
Return on attributed equity (%)[9]	**29.1**	25.8	43.3	
Return on attributed tangible equity (%)[9]	**29.1**	25.8		
Risk-weighted assets (USD billion)[9]	**57.9**	50.4	40.9	15
of which: held by Personal & Corporate Banking (USD billion)	***56.8***	*49.3*	*40.9*	*15*
of which: held by CC – Group ALM on behalf of Personal & Corporate Banking (USD billion)[10]	***1.1***	*1.1*		*3*
Leverage ratio denominator (USD billion)[9]	**193.4**	191.8	149.6	1
of which: held by Personal & Corporate Banking (USD billion)	***152.2***	*151.9*	*149.6*	*0*
of which: held by CC – Group ALM on behalf of Personal & Corporate Banking (USD billion)[10]	***41.2***	*39.9*		*3*
Business volume for Personal Banking (USD billion)	**158**	159	147	0
Net new business volume for Personal Banking (USD billion)	**6.7**	6.1	4.7	
Client assets (USD billion)[11]	**648**	684	619	(5)
Loans, gross (USD billion)	**133.3**	134.8	131.5	(1)
Due to customers (USD billion)	**144.1**	139.5	133.6	3
Secured loan portfolio as a percentage of total loan portfolio, gross (%)	**92.0**	92.7	92.9	
Impaired loan portfolio as a percentage of total loan portfolio, gross (%)[12]	**1.3**	0.6	0.6	
Personnel (full-time equivalents)	**5,183**	5,102	5,143	2

1 Comparative figures in this table have been restated for the change of the presentation currency from Swiss francs to US dollars with assets, liabilities and total equity translated to US dollars at 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. Comparatives may additionally differ due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 2 Recurring net fee

income consists of fees for services provided on an ongoing basis such as portfolio management fees, asset-based investment fund fees, custody fees and account-keeping fees, which are generated on client assets. 3 Transaction-based income comprises the non-recurring portion of net fee and commission income, mainly consisting of brokerage and transaction-based investment fund fees as well as credit card fees and fees for payment transactions, together with net income from fair value changes on financial instruments. 4 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 5 Includes a gain on the sale of our investment in Visa Europe in 2016. Figures presented for periods prior to 2018 relate to financial assets available for sale. 6 Reflects restructuring expenses related to legacy cost programs. 7 Refer to the "Performance targets and measurement" section of this report for the definitions of our performance measures. 8 Calculated as net new business volume for the period / business volume at the beginning of the period. 9 Refer to the "Capital management" section of this report for more information. 10 Represents risk-weighted assets and leverage ratio denominator held by Corporate Center – Group ALM that are directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and return on attributed equity" in the "Capital management" section of this report for more information. 11 Client assets are comprised of invested assets and other assets held purely for transactional purposes or custody only. We do not measure net new money for Personal & Corporate Banking.
12 Refer to the "Risk management and control" section of this report for more information on (credit-)impaired exposures.

Asset Management

Asset Management[1]

USD million, except where indicated	As of or for the year ended 31.12.18	31.12.17	31.12.16	% change from 31.12.17
Results				
Net management fees[2]	**1,778**	1,800	1,831	(1)
Performance fees	**80**	130	124	(38)
Gain / (loss) on sale of subsidiaries and businesses		153		
Total operating income	**1,857**	2,083	1,955	(11)
Personnel expenses	**703**	731	736	(4)
General and administrative expenses	**202**	235	244	(14)
Services (to) / from Corporate Center and other business divisions	**498**	524	512	(5)
of which: services from CC – Services	***541***	*562*	*537*	*(4)*
Depreciation and impairment of property, equipment and software	**2**	1	1	100
Amortization and impairment of intangible assets	**1**	3	5	(67)
Total operating expenses	**1,406**	1,495	1,498	(6)
Business division operating profit / (loss) before tax	**451**	587	457	(23)
Adjusted results[3]				
Total operating income as reported	**1,857**	2,083	1,955	(11)
of which: gain / (loss) on sale of subsidiaries and businesses		*153*		
Total operating income (adjusted)	**1,857**	1,929	1,955	(4)
Total operating expenses as reported	**1,406**	1,495	1,498	(6)
of which: personnel-related restructuring expenses[4]	***23***	*17*	*15*	
of which: non-personnel-related restructuring expenses[4]	***10***	*22*	*15*	
of which: restructuring expenses allocated from CC – Services[4]	***33***	*63*	*72*	
of which: gain related to changes to the Swiss pension plan	***(10)***			
Total operating expenses (adjusted)	**1,350**	1,393	1,397	(3)
Business division operating profit / (loss) before tax as reported	**451**	587	457	(23)
Business division operating profit / (loss) before tax (adjusted)	**508**	536	558	(5)
Performance measures[5]				
Pre-tax profit growth (%)	**(23.2)**	28.6	(24.4)	
Cost / income ratio (%)	**75.7**	71.8	76.6	
	3.4	8.4	(3.9)	

Net new money growth excluding money market flows (%)				
Net margin on invested assets (bps)[6]	**6**	8	7	(25)
Adjusted performance measures[3,5]				
Pre-tax profit growth (%)[7]	**(0.6)**	(2.1)	(8.7)	
Cost / income ratio (%)	**72.7**	72.2	71.4	
Net new money growth excluding money market flows (%)	**3.4**	8.4	(3.9)	
Net margin on invested assets (bps)[8]	**6**	7	9	(14)
Information by business line / asset class				
Net new money (USD billion)				
Equities	**20.7**	18.7	(10.1)	
Fixed Income	**8.3**	28.6	(3.4)	
of which: money markets	***7.5***	*10.8*	*6.8*	
Multi Assets & Solutions	**1.9**	4.9	(4.3)	
Hedge Fund Businesses	**0.4**	2.2	(0.3)	
Real Estate & Private Markets	**1.0**	5.1	1.8	
Total net new money	**32.2**	59.5	(16.2)	
of which: net new money excluding money markets	***24.8***	*48.7*	*(23.0)*	

Asset Management (continued)[1]

USD million, except where indicated	As of or for the year ended 31.12.18	31.12.17	31.12.16	% change from 31.12.17
Invested assets (USD billion)				
Equities	**285**	300	216	(5)
Fixed Income	**253**	248	206	2
of which: money market	***85***	*78*	*65*	*9*
Multi Assets & Solutions	**120**	130	119	(8)
Hedge Fund Businesses	**42**	42	38	0
Real Estate & Private Markets	**81**	76	66	7
Total invested assets	**781**	796	645	(2)
of which: passive strategies	***298***	*293*	*203*	*2*

Information by region

Invested assets (USD billion)