UBS

UBS Limited

Annual Report and Financial Statements for the year ended 31 December 2017

Company Registration Number: 2035362

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Directors and Officers

Board of Directors

Chairman and Non-Executive
John H Tattersall[1]

Other Non-Executive
Michelle M Bereaux[4]
Miryam (Miriam) M González Durántez[3,]
Jonathan (Bobby) P A Magee[2]

Chief Executive
Andrea Orcel

Finance Director
Nigel P Bretton

Chief Operating Officer
Beatriz Martin Jimenez

Other Executive Directors
David C B Soanes

Additional Information

Secretary
Deborah A Harvey, FCIS

Registered office and principal place of business
5 Broadgate
London EC2M 2QS

Registered Auditors
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London E14 5EY

1 Denotes Chairman of the UBS Limited Nomination and Governance Committee
2 Denotes Chairman of the UBS Limited Risk Committee
3 Denotes Chairman of the UBS Limited Audit Committee
4 Denotes Chairman of the UBS Limited Remuneration Committee

Strategic Report

Principal activities

UBS Limited ("the Company") is a private company limited by shares incorporated in the United Kingdom under the Companies Act 1985, registered in England and Wales with number 2035362, and now having its registered office situate at 5 Broadgate, London EC2M 2QS. The Company is part of UBS Group AG consolidated group, which includes UBS Group AG and its consolidated subsidiaries, also referred to as "the Group". The Company is a direct, wholly owned subsidiary of UBS AG and is included in its consolidated accounts. UBS Group AG, a company incorporated with limited liability in Switzerland, is the ultimate holding company ("the Parent"). The principal activities of the Company and the nature of its operations are set out in the Business Overview (see below).

During the year, the Company continued to carry on a financial services business as a bank authorized in the UK by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and Prudential Regulation Authority under the provisions of the Financial Services and Markets Act 2000, as amended. The Company's equities business operates a Multilateral Trading Facility, the UBS MTF. The Company also maintains certain exchange memberships in the United Kingdom and elsewhere in order to facilitate or support its business activities.

As a consolidated part of the Group, the Company and its performance have been, and continue to be, closely monitored and overseen by the Parent and UBS AG through Group and divisional governance and business frameworks. Independent governance is maintained through the UBS Limited Board supported by Board Committees to oversee the operation and risk affairs of the Company. Certain financial information is included in the published quarterly results of the Parent. The Company is also required to adhere to relevant Group and divisional policies and codes.

On 24 January 2003 UBS AG issued a deed poll providing a form of guarantee to counterparties of the Company. This guarantee remains in place.

The Company is headquartered in London and the reported results for the year include branches in France, Germany, Italy, Poland, Sweden, the Netherlands and Switzerland. During the year the Company had two Representative Offices in Switzerland, in Carouge (Geneva) and Opfikon (Zürich).

On 1 January 2017 the business from UBS AG Sweden Branch was transferred to UBS Limited Sweden Branch aligning the legal entity and business governance and supporting the overall Investment Bank strategy to rationalize its legal entity model. On 28 February 2017 the representative office in Carouge (Geneva) was closed.

Business Overview

The Company conducts business in a broad range of Investment Bank products and services, including providing corporate and institutional clients with investment advice, financial solutions and capital markets access. The Company offers advisory services and provides in-depth cross-asset research, along with access to equities, foreign exchange, precious metals and selected rates and credit markets, through the business units, Corporate Client Solutions and Investor Client Services.

Corporate Client Solutions

In Corporate Client Solutions ("CCS"), the Company advises clients on strategic business opportunities and helps them raise capital to fund their business activities. Together with Investor Client Services, the Company offers a full-service solution, which includes the distribution and risk management of capital markets products and financing solutions. The CCS main business lines are:

- *Advisory:* consulting *clients* on matters such as mergers and acquisitions, spin-offs, exchange offers, leveraged buyouts, joint ventures, exclusive sales, restructurings, takeover defense and corporate broking.
- *Equity Capital Markets:* offering comprehensive equity capital-raising services, as well as related derivative products. This includes managing initial public offerings and private placements, as well as equity-linked transactions and other strategic equities solutions.
- *Debt Capital Markets:* providing financing advice and helping clients raise various types of debt capital, as well as hedge the resulting exposures.
- *Financing Solutions:* providing customized solutions across asset classes via a wide range of financing capabilities, including structured, real estate and special situations financing.
- *Risk Management*: including corporate lending and associated hedging activities.

Investor Client Services

In Investor Client Services ("ICS"), the Company enables its clients to buy and sell securities on capital markets across the globe and to manage their risks and liquidity. The ICS business lines are:

Equities
The Company distributes, executes, finances and clears equity cash and derivative products. The main business lines are:

- *Cash:* offering trade execution and clearing for single stocks and portfolios through both traditional and electronic channels, along with investment advisory and consultancy services.
- *Derivatives:* enabling clients to manage risk and meet funding requirements through a wide range of listed and over-the-counter equity derivative instruments.
- *Financing Services:* providing hedge fund and institutional clients with a fully integrated platform for financing transactions. In addition, the Company executes and clears exchange-traded equity derivatives.

Foreign Exchange, Rates and Credit
Foreign Exchange, Rates and Credit ("FRC") provides execution services and solutions with an emphasis on electronic trading and maintaining high levels of balance sheet velocity. The main business lines are:

- *Foreign Exchange:* helping clients manage their currency exposures.
- *Rates and Credit:* providing sales, trading and market-making in a selected range of rates and credit products. In addition, FRC works closely with Corporate Client Solutions, providing support to the debt capital markets businesses and tailoring customized financing solutions for clients.

UBS IB Research
UBS IB Research clients are offered key insights on securities in major financial markets around the globe. In our flagship Q series reports, experts from across the UBS research team responds to questions from clients, providing a coordinated perspective across regions, sectors and asset classes.

Corporate Center
Corporate Center activity in the Company comprises Group Asset and Liability Management ("Group ALM") and the Non-core and Legacy portfolio. Group ALM is responsible for managing the Company's liquidity and funding position, as well as providing balance sheet and capital management services to the Company. The Non-core and Legacy portfolio is comprised of the non-core businesses and legacy positions that were part of the Investment Bank prior to its restructuring in 2012. Non-core and Legacy's positions are managed and exited over time.

Operating Model

In 2017, the Company continued with its business operating model of retaining and managing the majority of its market risk in relation to the over the counter (OTC) derivative positions of the Investment Bank business of the Company. The Company continues to transfer the market risk arising from the remainder of the derivatives portfolio within the Investment Bank to UBS AG, where the risk is managed. The market risk of positions within the Non-core and Legacy business continues to be transferred to, and managed in, UBS AG.

Results review

The profit on ordinary activities, before tax, for the year amounted to £197 million (2016: £197 million). After a net tax expense of £83 million (2016: £171m), the Company made a profit of £114 million for the year (2016: £26 million).

Following the payment of an interim dividend of £167m and a £12m payment of interest on other equity instruments, the Company retained profits at 31 December 2017 of £161 million (2016: £226 million).

Profit for the year reflects the business operating model, with the Company's revenues and expenses largely generated from its Cash Equities business and the Advisory, Equity Capital Markets ("ECM") and Debt Capital Markets ("DCM") businesses within CCS. The Company's revenues include fees generated from UBS AG in relation to market access provided to UBS AG.

The 2017 results include a deferred tax expense of £40 million, which reflected a decrease in deferred tax assets previously recognized in relation to tax losses carried forward. Details are provided in Note 9: Deferred tax assets.

Principal risks and uncertainties

Withdrawal of the UK from the European Union

In December 2017, the UK and the remaining EU member states reached an agreement on the separation issues under Phase I of the negotiations for the UK's withdrawal from the EU. As a result, the European Council agreed that "sufficient progress" had been made to allow the negotiations to move to Phase II on transitional arrangements and the future EU-UK relationship. The UK is still expected to leave the EU in March 2019, subject to a possible transition period.

The nature of the UK's future relationship with the EU remains unclear. Any future limitations on providing financial services into the EU from our UK operations could require us to make potentially significant changes to our operations in the UK and the EU, and to our legal structure. In the absence of adequate transition relief being agreed and passed into law by the United Kingdom and the European Union, we currently expect to merge the Company into UBS Europe SE, UBS's German headquartered European bank, prior to the United Kingdom leaving the European Union on 29 March 2019. Clients and other counterparties of the Company would become counterparties of UBS Europe SE through the planned merger of the two entities. However, we anticipate that clients of the Company who can be serviced by UBS AG London Branch would generally be migrated to UBS AG, London Branch prior to this merger. We further anticipate that some staff who are seconded to the Company would be relocated as a result; the exact

number of staff and roles would be determined in due course. The timing and extent of the actions we take may vary considerably depending on regulatory requirements and the nature of any transition or successor agreements with the EU.

Going concern

The 'Principal risks and uncertainties' section above outlines plans for the merger of the Company into UBS Europe SE in the event that suitable transition arrangements are not agreed, which we would expect to be executed in an orderly manner over the next 12 months or more and which we anticipate would require appropriate legal and regulatory approvals. Taking into account the likely merger of the Company's operations into UBS Europe SE and for the purposes of the revised guidance to Directors of UK companies issued in 2016 by the UK Financial Reporting Council on Going Concern and Liquidity Risk, the Directors have, on the basis of their assessment of the Company's financial position and of the enquiries made of the Parent and UBS AG, reasonably concluded that the Company will be able to continue in operational existence for the foreseeable future. Accordingly, the Company has continued to adopt the going concern basis in the preparation of its financial statements.

Key performance indicators

The Parent and UBS AG maintain an oversight of the Company's performance under the respective divisional business and governance management structures. The Directors are satisfied that during the year the Company's business has operated and performed satisfactorily in a challenging environment. The Directors actively monitor the Company's financial soundness including compliance with regulatory limits. The position of the Company is measured against daily capital and liquidity metrics and limits and is evaluated against the Board-approved 3 year financial plan.

Governance

As a subsidiary of the Parent, the Company operates within the framework of the broader UBS Group as regards business strategy, resources and overall policy and governance framework. The Company is governed by its Board of Directors and a framework of Committees, including Audit, Nomination, Remuneration and Risk Committees, an Executive Committee, and an Asset and Liability Committee. The Board of Directors comprises four Non-Executive Directors, including the Chairman, and four Executive Directors, including the Chief Executive, Finance Director and Chief Operating Officer.

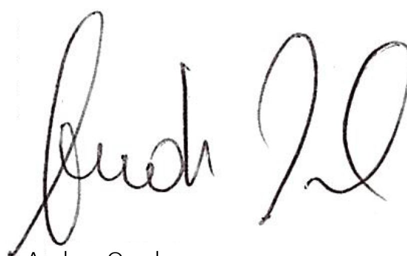
The Board comprises 37.5 per cent females, and continued to achieve its target of at least 25 per cent representation of females on the Board throughout the year.

The UBSL Nomination Committee reviewed the operation of the Board and of its committee governance, and reported to the Board on 16 November 2017. The review concluded that these bodies were operating appropriately within their respective remits.

Pillar 3 Supplementary Disclosures

The Pillar 3 Supplementary Disclosures for the Company, including risk management objectives and policies, Board biographies, remuneration policy and corporate structure details, can be found on the UBS Group AG website under 'Disclosure for Legal Entities', accessible through the Investor Relations pages on the UBS Group AG homepage: www.ubs.com.

Approved by the Board of Directors on 22 March 2018 and signed by:



Andrea Orcel
Chief Executive

Directors' Report

The Directors present their Report together with the audited Financial Statements of the Company for the year ended 31 December 2017 ("the year") which have been prepared in accordance with the provisions of the Companies Act 2006.

Strategic report

In accordance with the provisions of Section 414A of the Companies Act 2006, the Directors have prepared a Strategic Report complying with the provisions of Section 414C of the Companies Act 2006. The Strategic Report which is included with this Report and the audited Financial Statements for the year also covers matters relating to the Company's future developments and its network of European branches and representative offices.

Dividends

The Directors paid an interim dividend for the year amounting to £167m on 29 September 2017 (2016: £199m). The Directors do not recommend the declaration of a final dividend in respect of the year (2016: £nil).

Directors

The names of the current Directors are shown on page 4.

Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs).

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, the Directors are required to:

– Select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
– Present fairly the financial positions, financial performance and cash flows of the Company;
– Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
– Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
– Make judgments and accounting estimates that are reasonable;
– State that the Company has complied with the IFRSs; and
– Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each of the Directors at the date of approval of this Report and Audited Financial Statements has confirmed that:

– So far as he/she is aware, there was no relevant audit information of which the Auditors were unaware; and
– He/She has taken all the steps they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Auditors have been made aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Risk information on use of financial Instruments

Please refer to Note 33: Risk, treasury and capital management in the attached Financial Statements.

Political contributions

There were no charitable donations nor any contributions for political purposes made by the Company during the year (2016: nil).

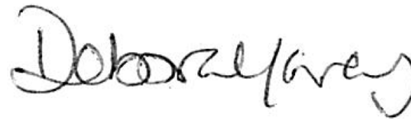
Important Post Balance Sheet Events

Please refer to Note 34: Events occurring after the balance sheet date in the Financial Statements.

Auditor

Ernst & Young LLP, Chartered Accountants and Registered Auditor, have indicated their willingness to continue in office and, in the event the Company dispenses with the holding of annual general meetings, as permitted by the Companies Act 2006 ("the Act"), shall continue in office in accordance with Section 487 of the Act or, if annual general meetings are continued with, until the conclusion of the next annual general meeting and in which case a resolution of their re-appointment will be proposed.

Approved by the Board of Directors on 22 March 2018 and signed on their behalf by:



Deborah A Harvey

Secretary

5 Broadgate, London EC2M 2QS

Independent Auditor's report to the members of UBS Limited

Opinion

We have audited the financial statements of UBS Limited for the year ended 31 December 2017 which comprise the Income statement, the Balance sheet, the Statement of cash flows, the Statement of other comprehensive income, the Statement of changes in equity and the related notes 1 to 35, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- Give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Inappropriate fair valuation of higher estimation uncertainty prices, parameters, and models • Inappropriate recognition of revenue and cost sharing arrangements with intercompany entities • Information Technology Systems
Materiality	• Overall materiality of £56.5m which represents 2% of equity

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

We also addressed the risk of management override of internal controls including whether there was evidence of bias by management or the directors that represented a risk of material misstatement due to fraud.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate fair valuation of higher estimation uncertainty prices, parameters, and models (level 3 financial assets £521m, level 3 financial liabilities £515m; 2016: level 3 financial assets £967m, level 3 financial liabilities £1,042m) *Refer to the Strategic Report (page 5); Accounting policies (page 22); and Note 24 of the Consolidated Financial Statements (page 46)* The valuation of financial instruments with higher risk characteristics involves both significant judgment and risk of inappropriate revenue recognition through mis-marking. The judgement in estimating fair value of these instruments can involve complex valuation models and significant fair value adjustments, both of which may be reliant on data inputs where there is limited market observability. The risk has remained consistent with previous years.	We tested the design and operating effectiveness of the key controls over the financial instrument valuation processes, including controls over market data inputs into valuation models, model governance, and any management valuation adjustments. We tested a sample of the valuation models including the appropriateness of the valuation model for the instrument and the inputs used in those models, using a variety of techniques, including comparing inputs to available market data. We selected a sample of positions and independently determined estimated values and compared the values to the entities recorded values. Where inputs and assumptions were not observable in the market we engaged our quantitative modelling and valuations specialists to independently recalculate the valuations and we compared the output to the client's valuations and investigated any differences. In addition, we evaluated the methodology and inputs used by the entity in determining funding and credit fair value adjustments on uncollateralized derivatives and fair value option liabilities.	We concluded that for the key controls tested they were designed and operating effectively, therefore we could place reliance on these key controls for the purposes of our audit. We also highlighted that our independent valuation of a sample of derivatives were either within our threshold or, where initially outside, were corroborated by other data, for example, trade exit activity, valuation adjustments for model or data limitations, or benchmarking to peer practice. Valuations of hard-to-price cash positions were within our thresholds. Based on the controls and substantive testing performed and given the uncertainties in the valuation of the higher estimation uncertainty positions, as disclosed in the financial statements, the valuations were concluded to be within a reasonable range of appropriate outcomes.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Inappropriate recognition of revenue and cost sharing arrangements with intercompany entities (revenue transfers £89m, cost transfers £534m, 2016: revenue transfers £147m, cost transfers £469m) *Refer to the Strategic Report (page 5); Accounting policies (page 22); and Notes 3, 4 and 6 of the Consolidated Financial Statements (page 34)* We focused on this risk due to the complexity and judgments used in the calculation of revenue and cost transfers with intercompany entities. The risk has remained consistent with previous years.	We tested the controls and governance over the revenue and cost sharing arrangements as well as a sample of the revenue and cost transfers for completeness and accuracy. As part of our testing for each of the transfers we: - Tested the calculation for the completeness and accuracy of the inputs - Tested the mathematical accuracy of the calculation - Reviewed the underlying transfer agreements - Confirmed that the methodology for the transfer was consistent throughout the year, and where it differed understood the business rationale for the change. As part of our testing we involved transfer pricing specialists to assess, for a sample of the agreements, the appropriateness of transfers to and from the entity.	Based on the procedures performed including the review by our transfer pricing specialist team we concluded that the revenue and cost transfers were appropriately stated.
Information Technology systems and controls *Refer to the Strategic Report (page 5); Accounting policies (page 22); and Note 33 of the Consolidated Financial Statements (page 74)* Our audit procedures have a focus on IT systems and controls due to the pervasive nature and complexity of the IT environment, the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Our areas of audit focus included user access management, developer access to the production environment and changes to the IT environment. These are key to ensuring IT dependent and application based controls are operating effectively.	We tested the design and operating effectiveness of the IT access controls over the information systems that are critical to financial reporting. We tested IT general controls (logical access, changes management and aspects of IT operational controls). This included testing that requests for access to systems were appropriately reviewed and authorised. We tested the Group's periodic review of access rights. We inspected requests of changes to systems for appropriate approval and authorisation. We considered the control environment relating to various interfaces, configuration and other application layer controls identified as key to our audit. Where deficiencies were identified, we tested compensating controls or performed alternate procedures. In addition, we sought to understand where relevant, changes were made to the IT landscape during the audit period.	We are satisfied that IT controls relevant to financial reporting operated effectively as at year-end. A number of user access related deficiencies were identified. Management identified compensating controls or performed alternative testing to mitigate these findings and undertook additional work to evidence that access was not used inappropriately. We tested the work undertaken by management and concur with their assessment.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed.

In establishing our overall approach to the audit, we determined the type of work that needed to be undertaken at each of the in scope locations by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction.

Our audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each key in scope location during the year. During the current year's audit cycle, visits were undertaken by the primary audit team to the Hong Kong, Singapore, Switzerland and United States component teams. These visits involved discussing the audit approach with the component team and any issues arising from their work, meeting with local management, attending planning and closing meetings. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process.

Changes from the prior year

There is no change to the overall scope in the current year.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £56.5million (2016: £57.2 million), which is 2% (2016: 2%) of Net Assets (2017: £2,808 million, 2016: £2,874 million).

We have used equity as the basis for calculating materiality as a significant portion of trades within the entity remain back to back with other group entities. For these trades substantially all credit, market, funding and other risks are transferred to other group entities as well as the profit and loss for these trades. As a result of this we determined equity to be the most appropriate measure for materiality for UBS Limited.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely £28.2 million (2016: £28.6 million). We have set performance materiality at this percentage based on our understanding of the entity, past experience with the audit and the expectations of management.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2.8 million (2016: £2.9 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 5-9, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

- In our opinion, based on the work undertaken in the course of the audit: the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' report set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The objectives of our audit:

- In respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management; and
- In respect to irregularities, considered to be non-compliance with laws and regulations, are to obtain sufficient appropriate audit evidence regarding compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements ('direct laws and regulations'), and perform other audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements. We are not responsible for preventing non-compliance with laws and regulations and our audit procedures cannot be expected to detect non-compliance with all laws and regulations.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the company and determined that the direct laws and regulations related to elements of company law and tax legislation, and the financial reporting framework. Our considerations of other laws and regulations that may have a material effect on the financial statements included permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We understood how UBS Limited is complying with those frameworks by assessing the oversight by those charged with governance, the culture of honesty and ethical behaviour where a strong emphasis is placed on fraud prevention. Consideration is made of the role of Compliance and Operational Risk Control and Group Internal Audit function within the Company's lines of defence to prevent and detect instances of non-compliance with these frameworks. We also reviewed correspondence between the Company and UK regulatory bodies; reviewed minutes of the Board and Risk Committees.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the company's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with the FCA and PRA.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Company has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk and related KAMs. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify material non-compliance with such laws and regulations. Our procedures involved: making enquiry of those charged with governance and senior management for their awareness of any non-compliance of laws or regulations affecting the financial statements, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the entity's methods of enforcing and monitoring compliance with such policies, inspecting correspondence with the regulatory authorities and reviewing required capital and liquidity reporting.

- The Company operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor reviewed the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of an expert where appropriate.
- As the banking industry is highly regulated, we have obtained an understanding of the regulations and the potential impact on the Company and in assessing the control environment we have considered the compliance of the Company to these regulations as part of our audit procedures, which included a review of correspondence received from the regulator.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

We were appointed by the company on 3 February 2000 to audit the financial statements for the year ending 31 December 1999 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments is 18 years, covering the years ending 31 December 1999 to 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting the audit.

The audit opinion is consistent with the additional report to the audit committee.

Ian Baggs (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor London 22 March 2018

Notes:
1. The maintenance and integrity of the UBS Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement for the year ended 31 December 2017

Income statement

GBP million	Notes	31.12.17	31.12.16
Interest and similar income	2	456	409
Interest and similar expense	2	(453)	(394)
Net interest income		3	15
Credit loss (expense)/recovery	14	(1)	(2)
Net interest income after credit loss expense		2	13
Net fee and commission income	3	756	699
Net trading income	2	24	36
Net gain on sale of financial investments	4	–	7
Other operating income	4	14	7
Total operating income		796	762
Personnel expenses	5	(30)	(21)
General and other administrative expenses	6	(569)	(543)
Total operating expenses		(599)	(565)
Profit before Tax		197	197
Taxation	8	(83)	(171)
Profit for the financial year		114	26

Note: All activities in current/prior year were continuing

The notes on pages 22 to 89 form an integral part of the financial statements.

Statement of other comprehensive income for year ended 31 December 2017

Statement of other comprehensive income

GBP million	31.12.17	31.12.16
Net profit	114	26
Other comprehensive income	–	–
Total comprehensive income	114	26

The notes on pages 22 to 89 form an integral part of the financial statements.

Balance sheet as at 31 December 2017

Balance sheet

GBP million	Notes	31.12.17	31.12.16
Assets			
Cash and balances with central banks		109	3
Due from banks	12	1,189	1,054
Cash collateral on securities borrowed	13	4,310	2,799
Reverse repurchase agreements	13	4,856	2,638
Trading portfolio assets	15	4,122	4,737
of which: assets pledged as collateral which may be sold or repledged by counterparties	25	*2,067*	*3,038*
Positive replacement values	16	11,754	17,451
Cash collateral receivable on derivative instruments	13	5,509	6,490
Loans and advances to customers	12	722	1,054
Financial assets designated at fair value	18	2,715	3,931
Other amounts due from group undertakings	31	116	222
Financial investments available-for-sale	17	2	123
Other assets	19	158	114
Deferred tax assets	9	7	47
Total assets		35,569	**40,663**
Liabilities			
Due to banks	20	4,777	2,715
Cash collateral on securities lent	13	105	228
Repurchase agreements	13	4,298	3,472
Trading portfolio liabilities	15	4,931	5,819
Negative replacement values	16	12,032	17,904
Cash collateral payable on derivative instruments	13	5,548	6,153
Due to customers	20	359	385
Financial liabilities designated at fair value	21	260	724
Other amounts owed to group undertakings	31	101	116
Other liabilities	23	295	198
Tax provision		23	34
Provisions	22	31	41
Total liabilities		32,760	**37,789**
Equity			
Share capital	29	227	227
Share premium		2,184	2,184
Revaluation reserve		2	2
Retained earnings		161	226
Other equity instruments		235	235
Total equity		2,809	**2,874**
Total liabilities and equity		35,569	**40,663**

These Financial Statements for UBS Limited (CRN: 2035362) were approved by the Directors on 22 March 2018 and signed on their behalf by:

Nigel Bretton, Finance Director
22 March 2018

The notes on pages 22 to 89 form an integral part of the financial statements.

Statement of changes in equity for year ended 31 December 2017

Statement of changes in equity

GBP million	Share Capital	Share premium	Revaluation reserve	Retained earnings	Other equity instruments	Total shareholders' funds
Balance as of 1 January 2016	**227**	**2,184**	**1**	**396**	**235**	**3,042**
Profit for the year	–	–	–	26	–	26
Other comprehensive income	–	–	1	–	–	1
Total Comprehensive income	**–**	**–**	**1**	**26**	**–**	**26**
Italian Branch Merger	–	–	–	16	–	16
Interest on other equity instruments	–	–	–	(13)	–	(13)
Dividends	–	–	–	(199)	–	(199)
Balance as of 31 December 2016	**227**	**2,184**	**2**	**226**	**235**	**2,874**
Profit for the year	–	–	–	114	–	114
Other comprehensive income	–	–	–	–	–	–
Total Comprehensive income	**–**	**–**	**–**	**114**	**–**	**114**
Interest on other equity instruments	–	–	–	(12)	–	(12)
Dividends	–	–	–	(167)	–	(167)
Balance as 31 December 2017	227	2,184	2	161	235	2,809

The notes on pages 22 to 89 form an integral part of the financial statements.

Statement of cash flows for the year ended 31 December 2017

Statement of cash flows

GBP million	31.12.17	31.12.16
Profit before tax	197	197
Cash flow from / (used in) operating activities		
Net (increase) / decrease in operating assets and liabilities		
Net due from / to banks	1,992	(328)
Reverse repurchase agreements and cash collateral on securities borrowed	(3,729)	583
Trading portfolio, net replacement values and financial assets designated at fair value	304	(3,123)
Loans/due to customers	305	(108)
Accrued income, prepaid expenses and other assets	33	1
Repurchase agreements and cash collateral on securities lent	702	(324)
Cash collateral on derivative instruments	375	(276)
Accrued expenses and other liabilities	97	52
Income taxes paid	(47)	(25)
Net cash flow from / (used in) operating activities	229	(3,351)
Cash flow from / (used in) investing activities		
Net (investment in) / divestment of financial investments available-for-sale	121	3,040
Cash flow from / (used in) financing activities		
Interest on other equity instruments	(12)	(13)
Dividends paid	(167)	(199)
Net cash flow from / (used in) financing activities	(179)	(212)
Net increase / (decrease) in cash and cash equivalents	171	(523)
Cash and cash equivalents at the beginning of the year	1,127	1,650
Cash and cash equivalents at the end of the year	1,298	1,127
Cash and cash equivalents comprise		
Cash and balances with central banks	109	3
Due from banks with original maturity of less than three months	1,189	1,054
Money market paper[1]	–	69
Total	1,298	1,127

1 Money market paper is included within financial assets measured at fair value on the balance sheet.

Notes to the financial statements for the year ended 31 December 2017

Note 1: Accounting policies

a) Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements (the "Financial Statements") of UBS Limited ("the Company") are described in this note. These policies have been applied consistently in all years presented unless otherwise stated.

Basis of accounting

The Financial Statements have been prepared on an historical cost basis except for the measurement of certain financial instruments, which account for a significant proportion of the balance sheet. This is in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

The Company has adopted all the standards, interpretations and amendments effective for the year ended 31 December 2017. The International Accounting Standards Board (IASB) has issued various standards, interpretations and amendments that are not yet effective and therefore have not yet been adopted by the Company.

Pounds sterling is the functional currency of the Company which is the currency of the primary economic environment in which the Company operates and the currency in which these Financial Statements are presented. The Company continues to adopt the going concern basis in the preparation of its financial statements. The accounting policies described in this Note have been applied consistently in all years presented unless otherwise stated in Note 1b.

Critical accounting judgments, estimates and assumptions

Preparation of these Financial Statements under IFRS requires management to apply judgment and make estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities, and may involve significant uncertainty at the time they are made. Such estimates and assumptions are based on the best available information. The Company regularly reassesses the 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 it updates them as necessary. Changes in those estimates and assumptions may have a significant impact on the Financial Statements. Further, actual results may differ significantly from Company's estimates, which could result in significant loss to the Company, beyond what it anticipated or provided for.

The following areas contain estimation uncertainty or require critical judgment and have a significant effect on the amounts recognized in the Financial Statements:

- Provisions (refer to note 22)
- Fair value of financial instruments (refer to note 24)

Consolidation

The Company assessed whether to consolidate other entities on the basis of control, which exist when it has (i) power over the relevant activities of the entity, (ii) exposure to an entity's variable returns and (iii) the ability to use its power to affect an entity's returns.

Where an entity is governed by voting rights, control is generally indicated by a direct shareholding of more than one half of the voting rights.

As of 31 December 2017 the Company did not consolidate any entities, including structured entities.

Structured entities (SE)

SEs are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate only to administrative tasks and the relevant activities are directed by means of contractual arrangements. The Company assesses whether an entity is an SE by considering the nature of the activities of the entity as well as the substance of voting or similar rights afforded to other parties, including investors and independent boards or directors. The Company considers rights such as the ability to liquidate the entity or remove the decision maker to be similar to voting rights when the holder has the substantive ability to exercise such rights without cause. In the absence of such rights or in cases where the existence of such rights cannot be fully established, the entity is considered to be an SE.

The Company interacts with SEs for a variety of reasons including allowing clients to obtain or be exposed to particular risk profiles, to provide funding or to sell or purchase credit risk. Many SEs are established as bankruptcy remote, meaning that only the assets in the SE are available for the benefit of the SE's

investors and such investors have no other recourse to the Company. Where the Company acts purely as an advisor, administrator or placement agent for an SE created by a third party entity, it is not considered to be sponsored by the Company.

Each individual entity is assessed for consolidation in line with the consolidation principles described above, considering the nature and scope of the Company's involvement. When the Company does not consolidate an SE but has an interest in an SE, additional disclosures are provided in Note 32 on the nature of these interests. The classes of SEs UBS Limited is involved with include the following:

- Securitization structured entities are established to issue securities to investors that are backed by assets held by the SE and such that (i) significant credit risk associated with the securitized exposures has been transferred to third parties and (ii) there is more than one risk position or tranche issued by the securitization vehicle in line with the Basel III securitization definition. All securitization entities are classified as SEs.
- Client investment structured entities are established predominantly for clients to invest in specific assets or risk exposures through purchasing notes issued by the SE, predominantly on a fixed-term basis. The SE may source assets via a transfer from UBS or through an external market transaction. In some cases, The Company may enter into derivatives with the SE to either align the cash flows of the entity with the investor's intended investment objective or to introduce other desired risk exposures. In certain cases, the Company may have interests in a third-party-sponsored SE to hedge specific risks or participate in asset-backed financing.
- Investment fund structured entities have a collective investment objective, are managed by an investment manager and are either passively managed, so that any decision making does not have a substantive effect on variability, or are actively managed and investors or their governing bodies do not have substantive voting or similar rights. The Company creates and sponsors a large number of funds in which it may have an interest through the receipt of variable management fees and / or a direct investment. In addition, the Company has interests in a number of funds created and sponsored by third parties, including exchange-traded funds and hedge funds, to hedge issued structured products.

Recognition and de-recognition of financial instruments

The Company recognizes financial instruments when it becomes a party to the contractual provisions of the instrument. UBS applies settlement date accounting to all regular purchases and sales of financial instruments.

In transactions in which the Company acts as a transferee, to the extent that the transfer of a financial asset does not qualify for de-recognition by the transferor, UBS does not recognize the transferred asset as its asset.

The Company also acts in a fiduciary capacity, which results in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Unless the recognition criteria are satisfied, these assets are not recognized on the Company's balance sheet. Consequently, the related income is excluded from these Financial Statements.

Client cash balances associated with derivatives clearing and execution services are not recognized on the balance sheet if, through contractual agreement, regulation or practice, the Group neither obtains benefits from nor controls the client cash balances.

Financial assets

The Company derecognizes a financial asset, or a portion of a financial asset, from its balance sheet where the contractual rights to cash flows from the asset have expired, or have been transferred, usually by sale, thus exposing the purchaser to either substantially all the risks and rewards of the asset or a significant part of the risks and rewards combined with the unconditional ability to sell or pledge the asset.

The Company enters into certain transactions where it transfers financial assets recognized on its balance sheet but retains either all or a portion of the risks and rewards of the transferred financial assets. If all or substantially all of the risks and rewards are retained, the transferred financial assets are not derecognized from the balance sheet. Transactions where transfers of financial assets result in the Company retaining all or substantially all risks and rewards include securities lending and repurchase transactions.

In transactions where substantially all of the risks and rewards of ownership of a financial asset are neither retained nor transferred, UBS Limited derecognizes the financial asset if control over the asset is surrendered. The rights and obligations retained following the transfer are recognized separately as assets and liabilities, respectively.

Where financial assets have been pledged as collateral or in similar arrangements, they are considered to have been transferred if the counterparty has received the contractual right to the cash flows of the pledged assets, as may be evidenced, for example, by the counterparty's right to sell or repledge the assets. Where the counterparty to the pledged financial assets has not received the contractual right to the cash flows, the assets are considered pledged, but not transferred.

Certain over-the-counter (OTC) derivative contracts and most exchange-traded futures and options contracts cleared through central clearing counterparties are considered to be settled on a daily basis through the daily margining process, as the payment or receipt of the variation margin represents legal or economic settlement of a derivative contract, which results in de-recognition of the associated positive and negative replacement values.

For the purposes of the Company's disclosures of transferred financial assets, a financial asset is typically considered to have been transferred when the Company a) transfers the contractual

rights to receive the cash flows of the financial asset or b) retains the contractual rights to receive the cash flows of that asset, but assumes a contractual obligation to pay the cash flows to one or more entities. Refer to Note 25: Restricted and transferred financial assets for more information.

Financial liabilities

The Company derecognizes a financial liability from its balance sheet when it is extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or has expired. When an existing financial liability is exchanged for a new one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability with any difference in the respective carrying amounts being recognized in the income statement.

Refer to Note 27: Financial assets and liabilities – additional information.

Securities borrowing / lending and repurchase / reverse repurchase transactions

Securities borrowing / lending and repurchase / reverse repurchase transactions are generally entered into on a collateralized basis. In such transactions, the Company typically borrows or lends equity and debt securities in exchange for securities or cash collateral.

These transactions are treated as collateralized financing transactions where the securities transferred / received are not derecognized or recognized on balance sheet. Securities transferred / received with the right to resell or repledge are disclosed separately.

In reverse repurchase and securities borrowing agreements, the cash delivered is derecognized and a corresponding receivable, including accrued interest, is recorded in the balance sheet lines *Reverse repurchase agreements* and *Cash collateral on securities borrowed*, respectively, representing the Company's right to receive the cash. Similarly, in repurchase and securities lending agreements, the cash received is recognized and a corresponding obligation, including accrued interest, is recorded in the balance sheet lines *Repurchase agreements* and *Cash collateral on securities lent*, respectively. Additionally, the sale of securities which is settled by delivering securities received in reverse repurchase or securities borrowing transactions trigger the recognition of a trading liability.

Repurchase and reverse repurchase transactions with the same counterparty, maturity, currency and the same Central Securities Depository are generally presented net subject to meeting the netting requirements referred to in the netting section of this note. Refer to Note 13: Cash collateral on securities borrowed and lent, repurchase and reverse repurchase agreements and derivative instruments.

Balances with UBS AG

The Company has a banking relationship with the Group. Transactions include, inter alia, current accounts and deposits. In these Financial Statements, such balances are treated as bank accounts and not as amounts owed to and by group undertakings.

Fair value of financial instruments

The Company accounts for a significant portion of its assets and liabilities at fair value. Fair value is the price on the measurement date that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market, or in the most advantageous market in the absence of a principal market.

All financial instruments measured at fair value are categorized into one of three fair value hierarchy levels. The fair values of Level 1 financial instruments are based on quoted prices in active markets. The fair values of Level 2 financial instruments are based on valuation techniques for which all significant inputs are, or are based on, observable market data. The fair values of Level 3 financial instruments are based on valuation techniques for which significant inputs are not based on observable market data.

The use of valuation techniques, modeling assumptions and estimates of unobservable market inputs require significant judgment and could affect the amount of gain or loss recorded for a particular position. Valuation techniques that rely more heavily on unobservable inputs require a higher level of judgment to calculate a fair value than those entirely based on observable inputs.

Valuation techniques, including models, that are used to determine fair values are periodically reviewed and validated by qualified personnel, independent of those who created them. Models are calibrated to ensure that outputs reflect observable market data, to the extent possible. Also, models prioritize the use of observable inputs, when available, over unobservable inputs. Judgment is required in selecting appropriate models as well as inputs for which observable data is less readily or not available.

The Company's valuation techniques may not fully reflect all the factors relevant to the fair value of financial instruments held. Valuations are therefore adjusted, where appropriate, to allow for additional factors, including credit risk, model risk, and liquidity risk.

The Company's governance framework over fair value measurement is set out in Note 24b.

The level of subjectivity and the degree of management judgment involved in the development of estimates and the selection of assumptions is more significant for instruments valued using specialized and sophisticated models and where some or all of the parameter inputs are less observable (Level 3 instruments) and may require adjustment to reflect factors that market participants would consider in estimating fair value, such as close-out costs, credit exposure, model-driven valuation uncertainty, funding costs and benefits, trading restrictions and

other factors which are presented in Note 24d. The Company provides a sensitivity analysis of the impact upon the Level 3 financial instruments of using reasonably possible alternative assumptions for the unobservable parameters within Note 24g.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with an original maturity of three months or less including cash, money market paper and balances with central and other banks.

Presentation of receivables from central banks

Deposits with central banks which are available on demand are presented on the balance sheet as Cash and balances with central banks. All longer-dated receivables with central banks are presented under Due from banks.

Trading portfolio assets and liabilities

Non-derivative financial assets and liabilities are classified at acquisition as held for trading and presented in the trading portfolio if they are a) acquired or incurred principally for the purpose of selling or repurchasing in the near term, or b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The trading portfolio includes non-derivative financial instruments (including those with embedded derivatives) and commodities. Financial instruments that are considered derivatives in their entirety generally are presented on the balance sheet as *Positive replacement values* or *Negative replacement values*. The trading portfolio includes recognized assets and liabilities relating to proprietary, hedging and client-related business.

Trading portfolio assets include debt instruments (including those in the form of securities, money market paper and traded corporate and bank loans), equity instruments, assets held under unit-linked contracts and precious metals and other commodities owned by the Company ("long" positions). Trading portfolio liabilities include obligations to deliver financial instruments such as debt and equity instruments which the Company has sold to third parties but does not own ("short" positions).

Assets and liabilities in the trading portfolio are measured at fair value. Gains and losses realized on disposal or redemption of these assets and liabilities and unrealized gains and losses from changes in the fair value of these assets and liabilities are reported as Net trading income. Interest and dividend income and expense on these assets and liabilities are included in Interest and dividend income *or* Interest and dividend expense.

The Company uses settlement date accounting when recognizing assets and liabilities in the trading portfolio. From the date a purchase transaction is entered into (trade date) until settlement date, the Company recognizes any unrealized profits and losses arising from re-measuring the transaction to fair value in Net trading income. The corresponding receivable or payable is presented on the balance sheet as a Positive replacement value or Negative replacement values, respectively. On settlement date, the resulting financial asset is recognized on the balance sheet at the fair value of the consideration given or received, plus or minus the change in fair value of the contract since the trade date. From the trade date of a sales transaction, unrealized profits and losses are no longer recognized and, on settlement date, the asset is derecognized.

Trading portfolio *assets* transferred to external parties that do not qualify for derecognition and where the transferee has obtained the right to sell or repledge the assets continue to be classified on the Company's balance sheet as Trading portfolio assets but are identified as Assets pledged *as* collateral which may be sold or repledged by counterparties. Such assets continue to be measured at fair value.

Refer to Note 15: Trading portfolio for more information.

Financial assets and financial liabilities designated at fair value through profit or loss

A financial instrument may only be designated as fair value through profit or loss upon initial recognition and this designation cannot be changed subsequently. Financial assets and financial liabilities designated at fair value are presented on separate lines on the face of the balance sheet. The fair value option can be applied only if one of the following criteria is met:

- The financial instrument is a hybrid instrument which includes a substantive embedded derivative;
- The financial instrument is part of a portfolio which is risk managed on a fair value basis and reported to senior management on that basis or
- The application of the fair value option eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Company designates at fair value through profit or loss the following financial assets:

– Certain structured loans, reverse repurchase and securities borrowing agreements that are managed on a fair value basis.

– Loans that are hedged predominantly with credit derivatives. These instruments are designated at fair value to eliminate an accounting mismatch.

– Certain debt securities held as high-quality liquid assets (HQLA) and managed by Corporate Center – Group ALM on a fair value basis.

– Assets held to hedge delivery obligations related to cash-settled employee compensation plans. These assets are designated at fair value in order to eliminate an accounting mismatch that would otherwise arise due to the liability being measured on a fair value basis.

The Company applies the same recognition and derecognition principles to financial instruments designated at fair value as to financial instruments in the trading portfolio.

Refer to Notes 18 and 21 for more information on Financial assets and liabilities designated at fair value.

Financial investments classified as available-for-sale

Financial investments classified as available-for-sale are non-derivative financial assets that are not classified as held for trading, designated at fair value through profit or loss, or loans and receivables. They are recognized on a settlement date basis.

Financial investments classified as available-for-sale include debt securities held as part of the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Treasury and strategic equity investments.

Financial investments classified as available-for-sale are recognized initially at fair value less transaction costs and are measured subsequently at fair value. Unrealized gains and losses are reported in other comprehensive income , net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired. Unrealized gains before tax are presented separately from unrealized losses before tax in Note 17: Financial investments classified as available-for-sale.

For monetary instruments (such as debt securities), foreign exchange translation gains and losses determined by reference to the instrument's amortized cost basis are recognized in Net trading income. Foreign exchange translation gains and losses related to other changes in fair value are recognized in *Other comprehensive income*. Foreign exchange translation gains and losses associated with non-monetary instruments (such as equity securities) are part of the overall fair value change of the instruments and are recognized directly in *Other comprehensive income*.

Interest and dividend income on financial investments classified as available-for-sale are included in Interest and dividend income from financial investments available-for-sale. Interest income is determined by reference to the instrument's amortized cost basis using the effective interest rate (EIR).

On disposal of an investment, any related accumulated unrealized gains or losses included in *Equity* are transferred to the Income statement and reported in *Other income*. *Gains* or losses on disposal are determined using the average cost method.

At each balance sheet date, the Company assesses whether indicators of impairment are present for financial investments classified as available-for-sale. A financial investment classified as available-for-sale is impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the investment, the estimated future cash flows from the investment have decreased. A significant or prolonged decline in the fair value of a financial investment classified as available-for-sale equity instrument below its original cost is considered objective evidence of an impairment. In the event of a significant decline in fair value below its original cost (20%) or a prolonged decline (six months), an impairment is recorded unless facts and circumstances clearly indicate that this information, on its own, is not evidence of an impairment.

For debt investments, objective evidence of impairment includes significant financial difficulty for the issuer or counterparty, default or delinquency in interest or principal payments, or it becoming probable that the borrower will enter bankruptcy or financial reorganization. If a financial investment classified as available-for-sale is determined to be impaired, the related cumulative net unrealized loss previously recognized in Other comprehensive income within Equity is reclassified to the income statement within Other income. For equity instruments, any further loss is recognized directly in the income statement, whereas for debt instruments, any further loss is recognized in the income statement only if there is additional objective evidence of impairment. After the recognition of an impairment on a financial investment available-for-sale, increases in the fair value of equity instruments are reported in Other comprehensive income within Equity and increases in the fair value of debt instruments up to amortized cost in original currency are recognized in Other income, provided that the fair value increase is related to an event occurring after the impairment loss was recorded.

The Company applies the same recognition and derecognition principles to financial investments classified as available-for-sale as to financial instruments in the trading portfolio, except that unrealized gains and losses between trade date and settlement date are recognized in *other comprehensive income* rather than in the income statement.

Refer to Note 17: Financial investments classified as available-for-sale for more information.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not classified as held-for-trading, not designated as at fair value through profit and loss or available-for-sale, and are not assets for which the Company may not recover substantially all of its initial net investment, other than because of a credit deterioration. Financial assets classified as loans and receivables include:

- originated loans where funding is provided directly to the borrower;
- participation in a loan from another lender and purchased loans;
- securities which are classified as loans and receivables at acquisition date

Loans and receivables are recognized when the Company becomes a party to the contractual provisions of the instrument, which is when funding is advanced to borrowers. They are recorded initially at fair value, based on the amount provided to originate or purchase the loan or receivable, together with any transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost using the EIR method, less allowances for credit losses.

Interest on loans and receivables is included in Interest earned *on loans and advances* and is recognized on an accrual basis. Upfront fees and direct costs relating to loan origination, refinancing or restructuring as well as to loan commitments are generally deferred and amortized to Interest earned on loans

and advances over the life of the loan using the EIR method. For loan commitments that are not expected to result in a loan being advanced, the fees are recognized in Net fee and commission income over the commitment period. For loan syndication fees where the Company does not retain a portion of the syndicated loan, or where the Company does retain a portion of the syndicated loan at the same effective yield for comparable risk as other participants, fees are credited to Net fee and commission income when the services have been provided.

Allowances and provisions for credit losses

An allowance or provision for credit losses is established if there is objective evidence that the Company will be unable to collect all amounts due (or the equivalent thereof) on a claim based on the original contractual terms due to credit deterioration of the issuer or counterparty. A "claim" means a loan or receivable carried at amortized cost, or a commitment such as a letter of credit, a guarantee, or another similar instrument. Objective evidence of impairment includes significant financial difficulty for the issuer or counterparty, default or delinquency in interest or principal payments, or it becoming probable that the borrower will enter bankruptcy or financial reorganization.

An allowance for credit losses is reported as a reduction of the carrying value of a claim on the balance sheet. For an off-balance-sheet item, such as a commitment, a provision for credit loss is reported in *Provisions*. Changes to allowances and provisions for credit losses are recognized as *Credit loss expense/ recovery*.

Allowances and provisions for credit losses are evaluated at both a counterparty-specific level and collectively based on the following principles:

Counterparty-specific: A loan is considered impaired when management determines that it is probable that the Company will not be able to collect all amounts due (or the equivalent value thereof) based on the original contractual terms. Individual credit exposures are evaluated based on the borrower's character, overall financial condition and capacity, resources and payment record, the prospects for support from any financially responsible guarantors and, where applicable, the realizable value of any collateral. The estimated recoverable amount is the present value, calculated using the claim's original EIR, of expected future cash flows including amounts that may result from restructuring or the liquidation of collateral. If a loan has a variable interest rate, the discount rate used for calculating the recoverable amount is the current EIR. Impairment is measured and allowances for credit losses are established based on the difference between the carrying amount and the estimated recoverable amount. Upon impairment, the accrual of interest income based on the original terms of the loan is discontinued. The increase of the present value of the impaired loan due to the passage of time is reported as Interest income.

All impaired loans are reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared with prior estimates result in a change in the allowance for credit losses and are charged or credited to Credit loss expense / recovery. An allowance for impairment is reversed only when the credit quality has improved to such an extent that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim, or the equivalent value thereof. A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs reduce the principal amount of a claim and are charged against previously established allowances for credit losses or, if no allowance has been established previously, directly to Credit loss expense/recovery. Recoveries, in part or in full, of amounts previously written off are credited to Credit loss expense / recovery.

Collectively: All loans for which no impairment is identified at a counterparty-specific level are grouped on the basis of the Company's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors, to collectively assess whether impairment exists within a portfolio. Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions of the group of financial assets on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently in the portfolio. Estimates of changes in future cash flows for the group of financial assets reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows for the group of financial assets are reviewed regularly to reduce any differences between loss estimated and actual loss experience. Allowances from collective assessment of impairment are recognized as Credit loss expense/recovery and result in an offset to the aggregated loan position. As the allowance cannot be allocated to individual loans, the loans are not considered to be impaired and interest is accrued on each loan according to its contractual terms. If objective evidence becomes available that indicates that an individual financial asset is impaired, it is removed from the group of financial assets assessed for impairment on a collective basis and is assessed separately as a counterparty specific claim.

Refer to Note 14: Allowances and provisions for more information.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are remeasured subsequently to fair value.

Derivative instruments are generally reported on the balance sheet as Positive replacement values or Negative replacement values.

Foreign currencies

Transactions denominated in foreign currency are translated into the functional currency of the Company at the spot exchange rate on the date of the transaction. At the balance sheet date, all monetary assets and liabilities denominated in foreign currency are translated to the functional currency using the closing exchange rate.

Foreign exchange differences on financial investments available-for-sale are recorded directly in Equity until the asset is sold or becomes impaired, with the exception of translation differences on the amortized cost of monetary financial investments available-for-sale which are reported in Net trading income, along with all other foreign exchange differences on monetary assets and liabilities.

Upon consolidation, assets and liabilities of foreign operations are translated into pounds sterling (GBP), The Company's presentation currency, at the closing exchange rate on the balance sheet date, and income and expense items are translated at the average rate for the period. The resulting foreign currency translation differences are recognized directly in foreign currency translation reserve within Equity.

Loan commitments

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Loan commitments that can be cancelled by the Company at any time (without giving a reason) according to their general terms and conditions, are not recognized on the balance sheet and are not included in the off-balance-sheet disclosures. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with *Loans and advances to customers.*

Irrevocable loan commitments (where the Company has no right to withdraw the loan commitment once communicated to the counterparty, or which are revocable only due to automatic cancellation upon deterioration in a borrower's creditworthiness) are classified into the following categories:

– derivative loan commitments, being loan commitments that can be settled net in cash or by delivering or issuing another financial instrument, or loan commitments for which there is evidence of selling loans resulting from similar loan commitments before or shortly after origination;
– loan commitments designated at fair value through profit and loss and
– all other loan commitments. These are not recorded in the balance sheet, but a provision is recognized if it is probable that a loss has been incurred and a reliable estimate of the amount of the obligation can be made. Other loan commitments include irrevocable forward starting reverse repurchase and irrevocable securities borrowing agreements.

Any change in the liability relating to these other loan commitments is recorded in the income statement in Credit loss expense/recovery.

When a client draws on a commitment, the resulting loan is classified as a (i) Trading asset, consistent with the associated derivative loan commitment, (ii) Financial asset designated at fair value through profit or loss, consistent with the commitment designated at fair value through profit or loss or as a (iii) *Loan*.

Other operating income

Other operating income relates to charges for the provision of investment banking services to group companies.

Taxation

Corporate income tax payable on profits is recognized as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise. The tax effects of corporation tax losses available for carry forward are recognized as a deferred tax asset if it is probable that future taxable profits (based on assumptions underpinning profits forecast) will be available against which those losses can be utilized.

Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates at the balance sheet date.

Tax assets and liabilities of the same type (current or deferred) are offset when they arise from the same tax reporting group, they relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realized simultaneously.

Current and deferred taxes are recognized as a tax benefit or expense in the income statement except for current and deferred taxes recognized for unrealized gains or losses on financial investments available-for-sale, and for certain foreign currency translations of foreign operations where such taxes are recognized in other comprehensive income.

Refer to Note 8: Income taxes and Note 9: Deferred tax assets for more information.

Defined contribution pension plan

A defined contribution plan is a pension plan under which UBS pays fixed contributions into a separate entity from which post-employment and other benefits are paid. The Company has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. The Company's contributions are expensed when the employees have rendered services in exchange for such contributions. This is generally in the year of contribution.

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit pension plans

Defined benefit pension plans specify an amount of benefit that an employee will receive, which usually depends on one or more factors, such as age, years of service and compensation. The defined benefit liability recognized in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets (where applicable) at the balance sheet date with changes resulting from re-measurements recorded immediately in Other comprehensive income. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the recognition of the resulting net defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. UBS applies the projected unit credit method to determine the present value of its defined benefit obligations, the related current service cost and, where applicable, past service cost. The projected unit credit method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. These amounts, which take into account the specific features of each plan, including risk sharing between employee and employer, are calculated periodically by independent qualified actuaries.

Provisions

Provisions are liabilities of uncertain timing or amount, and are recognized when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The majority of the Company's provisions relate to litigation, regulatory and similar matters. Provisions that are similar in nature are aggregated to form a class, while the remaining provisions, including those of less significant amounts, are presented under Other provisions.

The Company recognizes provisions for litigation, regulatory and similar matters when, in the opinion of management after seeking legal advice, it is more likely than not that the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated.

Provisions are recognized at the best estimate of the consideration required to settle the present obligation at the balance sheet date. Such estimates are based on all available information and are revised over time as more information becomes available. If the effect of the time value of money is material, provisions are discounted and measured at the present value of the expenditure expected to settle or discharge the obligation, using a rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

A provision is not recognized when the Company has a present obligation that has arisen from past events but it is not probable that an outflow of resources will be required to settle it, or a sufficiently reliable estimate of the amount of the obligation cannot be made. Instead, a contingent liability is disclosed. Contingent liabilities are also disclosed for possible obligations that arise from past events whose existence will be confirmed only by uncertain future events not wholly within the control of the Company. Refer to Note 22: Provisions for more information.

Fee income

The Company earns fee income from a diverse range of services it provides to its clients. Fee income can be divided into two broad categories: fees earned from services that are provided over a certain period of time (for example advisory fees) and fees earned from providing transaction-type services (for example, underwriting fees, corporate finance fees and brokerage fees). Fees earned from services that are provided over a certain period of time are recognized rateably over the service period, with the exception of performance-linked fees or fee components with specific performance criteria. Such fees are recognized when the performance criteria are fulfilled and when collectability is reasonably assured. Fees earned from providing transaction-type services are recognized when the service has been completed. Generally, fees are presented in the income statement in line with the balance sheet classification of the underlying instruments.

Loan commitment fees on lending arrangements, where there is an initial expectation that the facility will be drawn down, are deferred until the loan is drawn down and are then recognized as an adjustment to the effective yield over the life of the loan. If the commitment expires and the loan is not drawn down, the fees are recognized as revenue when the commitment expires. Where the initial expectation that the facility will be drawn down is remote, the loan commitment fees are recognized on a straight-line basis over the commitment period. If, subsequently, the commitment is drawn down, the unamortized component of the loan is amortized as an adjustment to the effective yield over the life of the loan.

Refer to Note 3: Net fee and commission income for more information.

Netting

The Company nets financial assets and liabilities on its balance sheet if: (i) it has the unconditional and legally enforceable right to set-off the recognized amounts, both in the normal course of business and in the event of default, bankruptcy or insolvency of the Company and all of the counterparties, and (ii) intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Netted positions include, for example, certain derivatives and repurchase and reverse repurchase transactions with various counterparties, exchanges and clearing houses. In assessing whether the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously, emphasis is placed on the effectiveness of

operational settlement mechanics in eliminating substantially all credit and liquidity exposure between the counterparties. This condition precludes offsetting on the balance sheet for substantial amounts of the Company's financial assets and liabilities, even though they may be subject to enforceable netting arrangements. For OTC derivative contracts, balance sheet offsetting is generally only permitted in circumstances in which a market settlement mechanism exists via an exchange or central clearing counterparty, which effectively accomplishes net settlement through a daily exchange of collateral via a cash margining process. For repurchase arrangements and securities financing transactions, balance sheet offsetting may be permitted only to the extent that the settlement mechanism eliminates, or results in insignificant, credit and liquidity risk, and processes the receivables and payables in a single settlement process or cycle.

Refer to Note 26 for more information.

Interest income and expense

Interest income on financial assets, excluding derivatives, is included in Interest income when positive and in Interest expense when negative, because negative interest income arising on a financial asset does not meet the definition of revenue. Similarly, interest expense on financial liabilities, excluding derivatives, is included in Interest expense, except when interest rates are negative, in which case it is included in Interest income. Dividend income on all financial assets is included in Interest income.

Refer to Note 2: Net interest and trading income for more information.

b) Changes in accounting policies, comparability and other adjustments

Amendments to IAS 7, Statement of Cash Flows

The Company adopted Amendments to IAS 7, *Statement of Cash Flows,* on 1 January 2017 and was required to separately disclose the drivers of changes in financial liabilities arising from financing activities, including changes arising from cash flows and non-cash changes, in its Statement of cash flows. The adoption of these amendments did not have a material impact on the Company's financial statements as it did not have material financial liabilities arising from financing activities in the reporting period.

Amendments to IAS 12, Income Taxes

In 2017, the Company adopted amendments to IAS 12, *Income Taxes*, that clarify how to account for deferred tax assets related to debt instruments measured at fair value. The adoption of these amendments did not have a material impact on the Company's financial statements.

c) International Financial Reporting Standards and Interpretations to be adopted in 2017 and later

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments is effective and applicable from 1 January 2018. IFRS 9 reflects the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement.

Classification and measurement

IFRS 9 requires all financial assets, except equity instruments, to be classified at amortized cost, at fair value through other comprehensive income ("OCI") or at fair value through profit or loss, based on the business model for managing the respective financial assets and their contractual cash flow characteristics. If a financial asset meets the criteria to be measured at amortized cost or at fair value through OCI, it can be designated at fair value through profit or loss if doing so would significantly reduce or eliminate an accounting mismatch.

Equity instruments that are not held for trading may be accounted for at fair value through OCI, with no subsequent reclassification of realized gains or losses to the income statement under any circumstances, while all other equity instruments will be accounted for at fair value through profit or loss.

IFRS 9 classification and measurement requirements for liabilities are unchanged except that any gain or loss arising on a financial liability designated at fair value through profit or loss that is attributable to changes in the issuer's own credit risk (own credit) is presented in OCI and not recognized in the income statement unless doing so would create an accounting mismatch, in which case own credit continues to be recognized in the income statement.

Expected Credit Losses

IFRS 9 introduces a forward-looking expected credit loss ("ECL") approach, which is intended to result in an earlier recognition of credit losses compared with the existing incurred-loss impairment approach for financial instruments in IAS 39, and the loss-provisioning approach for financial guarantees and loan commitments in *IAS 37, Provisions, Contingent Liabilities and Contingent Assets.* The new impairment model applies to financial assets measured at amortized cost, debt instruments measured at fair value through OCI, lease receivables, and financial guarantee contracts and loan commitments that are not measured at fair value through profit or loss.

Expected credit losses will be recognized on the following basis:

– A maximum of 12-month ECL are required to be recognized from initial recognition, reflecting the portion of lifetime cash shortfalls that will result if a default occurs in the 12 months after the reporting date (or a shorter period if the expected life is less), weighted by the risk of that default occurring. Respective instruments are referred to as instruments in stage 1.

– Lifetime ECL are required to be recognized if a significant increase in credit risk ("SICR") is detected subsequent to the instrument's initial recognition, reflecting lifetime cash shortfalls that will result from all possible default events over the expected life of a financial instrument, weighted by the risk of default occurring. Respective instruments are referred to as instruments in stage 2. Where an SICR is no longer observed, the instrument will move back to stage 1.

– Lifetime ECL are always recognized for credit-impaired financial instruments, referred to as instruments in stage 3. The IFRS 9 determination of whether an instrument is credit impaired will follow substantially the same principles used to determine whether an instrument is impaired under IAS 39, i.e., is based on the occurrence of one or more loss events. However, the ECL for credit-impaired financial instruments under IFRS 9 may differ mainly due to additional forward-looking considerations required under IFRS 9. Credit-impaired exposures may include positions for which no loss has occurred or no allowance has been recognized, for example because they are expected to be fully recoverable through the collateral held. Instruments that are no longer credit impaired move back to stage 2 or stage 1.

– Changes in lifetime ECL since initial recognition are also recognized for instruments that are purchased or originated credit impaired.

The methodology applied will calculate an individual probability-weighted unbiased ECL in line with the complexity, structure and risk profile of relevant portfolios and be determined based on a combination of the following principal factors: probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD") and discounting to the reporting date, alongside an evaluation of a range of possible outcomes, forecasts of future economic conditions and information on past events and current conditions. PDs and LGDs used in the ECL calculation will be point in time (PIT) based and consider a range of scenarios (upside, baseline, mild downside, downside) to capture material non-linearity and asymmetries and will apply scenario weights to reflect a likelihood of their occurrence.

The Company measure ECL over the maximum contractual period it is exposed to credit risk, taking into account contractual extension, termination and prepayment options. For certain credit card facilities without a defined contractual end date, which are callable on demand and where the drawn and undrawn portions are managed as one unit, the period over which UBS is exposed to credit risk exceeds the contractual notice period and therefore this longer period is used within the ECL calculation.

Qualitative and quantitative criteria are used to determine whether the credit risk on a particular instrument has significantly increased from its initial recognition. The Company will assess changes in an instrument's risk of default primarily based on a comparison of the annualized forward looking and scenario weighted lifetime PIT-based PDs at inception of the instrument and the reporting date. Additional qualitative information is considered, including internal indicators of credit risk such as day past due information, external market indicators of credit risk and general economic conditions, to detect significant increases in credit risk.

IFRS 9 does not provide an explicit definition of default. For the purpose of measuring expected credit losses, the Company will apply a definition of default that is consistent with the definition used in capital calculations and by internal credit risk management.

Overall, the level of credit losses is expected to increase under IFRS 9 alongside additional income statement volatility due to the use of uncertain forward-looking assumptions and the application of the SICR approach.

Transition

The transition impact of IFRS9 on the Company's financial statements is not material. In line with the transitional provisions in IFRS9, the Company will recognize it as an adjustment to its IFRS consolidated equity. As permitted by IFRS 9, the Company will not restate prior-period information.

Presentation

Presentation of interest income: In line with consequential amendments to IAS 1, *Presentation of Financial Statements,* UBS will, from 1 January 2018, present interest income calculated using the effective interest method on assets that are subsequently measured at amortized cost and fair value through OCI, separately in the income statement.

IFRS 15, Revenue from Contracts with Customers

The Company will adopt IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18, *Revenues* on 1 January 2018. IFRS 15 establishes principles for revenue recognition that apply to all contracts with customers except those relating to financial instruments, leases and insurance contracts and requires an entity to recognize revenue as performance obligations are satisfied. In particular, the standard now specifies that variable consideration is only recognized to the extent that it is highly probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved. IFRS 15 also provides guidance on when revenues and expenses should be presented on a gross or net basis and establishes a cohesive set of disclosure requirements for information on the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Company will adopt the standard on a modified retrospective basis that does not require comparatives to be restated. Instead, the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of retained earnings. The transition adjustment will not be material.

IFRS 15 will result in a deferral of research revenues in the Investment Bank, however the impact on Company's revenues is not expected to be material. The Company will also present certain fee and commission income and expense on a gross basis, rather than net basis, if the Company is acting as a principal, with Fee and commission income reported separately from Fee and commission expense on the face of the income statement. The supporting Fee and commission note disclosure will be enhanced to provide more information on the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers.

IFRIC 22, Foreign Currency Transactions and Advance *Consideration*

In December 2016, the IFRS Interpretations Committee of the IASB issued IFRIC Interpretation 22, *Foreign Currency* Transactions and Advance Consideration, which clarifies that the date of the transaction for the purpose of determining the exchange rate to apply on initial recognition of the related asset, expense or income, is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. Entities are required to apply IFRIC 22 for annual periods beginning on or after 1 January 2018. The Company expects that the adoption of this IFRS Interpretation will not have a material impact on its financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB issued IFRIC Interpretation 23, *Uncertainty over Income Tax Treatments* (IFRIC 23), which addresses how uncertain tax positions should be accounted for under IFRS. Under this interpretation, IFRIC 23 requires that, where acceptance of the tax treatment by the relevant tax authority is considered probable, it should be assumed as an accounting recognition matter that treatment of the item will ultimately be accepted. Therefore, no tax provision would be required in such cases. However, if acceptance of the tax treatment is not considered probable, the entity is required to reflect that uncertainty using an expected value (i.e., a probability-weighted approach) or the single most likely amount. IFRIC 23 is mandatorily effective for accounting periods beginning on or after 1 January 2019 and any resulting change to the tax provisions should be recognized in retained earnings. The Company is in the process of assessing the impact of this interpretation, which is not expected to have a material effect on its financial statements.

Amendments to IAS 19, Employee benefits

In February 2018, the IASB issued amendments to IAS 19, *Employee Benefits*, which address the accounting when a plan amendment, curtailment or settlement occurs during the reporting period. The amendments require entities to use the updated actuarial assumption to determine current service cost and net interest for the remainder of the annual reporting period after such an event. The amendments also clarify how the requirements for accounting for a plan amendment, curtailment or settlement affect the asset ceiling requirements. The amendments are effective prospectively for plan amendments, curtailments or settlements that occur on or after 1 January 2019, with earlier application permitted. The Company does not intend to early adopt this amendment.

Annual Improvements to IFRS Standards 2015–2017 Cycle

In December 2017, the IASB issued *Annual Improvements to IFRS Standards 2015–2017 Cycle*, that resulted in amendments to IAS 12, *Income Taxes*. The amendments are mandatorily effective as of 1 January 2019. The Company expects that the adoption of these amendments will not have a material impact on the financial statement.

Note 2 Net interest and trading income

GBP million	31.12.17	31.12.16
Net interest income	3	15
Net trading income	24	36
Total net interest and trading income	27	51

Interest income

GBP million	31.12.17	31.12.16
Interest and similar income		
Interest earned on loans and advances	143	107
Interest earned on securities financing agreements[1]	146	89
Interest and dividend income from trading portfolio	130	164
Interest income on assets designated at fair value	37	45
Interest and dividend income from financial investments available-for-sale	–	4
Total	456	409
Interest and similar expense		
Interest on amounts due to banks and customers	(189)	(85)
Interest expense on securities financing agreements[2]	(142)	(137)
Interest and dividend expense from trading portfolio	(95)	(136)
Interest expense on liabilities designated at fair value	(26)	(36)
Total	(453)	(394)
Net interest income/ (expense)	3	15

1 Includes interest income on securities borrowed and reverse repurchase agreements and negative interest, including fees, on securities lent and repurchase agreements. 2 Includes interest expense on securities lent and repurchase agreements and negative interest, including fees, on securities borrowed and reverse repurchase agreements.

Net trading income

GBP million	31.12.17	31.12.16
Net trading income	24	36
of which: net gains/(losses) from financial assets designated at fair value	*1*	*17*
of which: net gains/(losses) from financial liabilities designated at fair value	*1*	*(11)*

Note 3 Net fee and commission income

GBP million	31.12.17	31.12.16
Equity underwriting fees	161	102
Debt underwriting fees	74	99
Total underwriting fees	235	201
M&A and corporate finance fees	102	125
Brokerage fees earned	592	617
Total securities trading and investment activity fees	695	742
Credit-related fees and commissions	5	5
Commission income from other services[1]	232	206
Total fee and commission income	1,167	1,154
Brokerage fees paid	(177)	(211)
Commission expense from other services[1]	(234)	(244)
Total fee and commission expense	(411)	(455)
Net fee and commission income	756	699

1 In 2017, Commission income and Commission expense from other services include £127m received from and £193m paid to other UBS affiliates for services produced or consumed outside of the Company.

Note 4 Other income

GBP million	31.12.17	31.12.16
Financial investments available-for-sale		
Net gains from disposals	–	7
Other operating income	14	7
Total	14	14

Note 5 Personnel expenses

GBP 000	Note	31.12.17	31.12.16
Salaries		11,313	8,295
Variable compensation		11,618	8,983
Contractors		163	105
Social security		2,512	2,313
Pension plans	28	1,069	68
Other personnel expenses		3,407	1,701
Total expenses		30,082	21,465

The personnel expenses above relate to the employees in the Italian Branch, Netherlands Branch, Sweden Branch, representative offices, and the Polish Branch which are reported under 'Personnel expenses' in the income statement. There was an average of 75 employees during the year (2016: 62).

The Company has 84 employees of its own at the year end: 31 are resident in Italy as staff of the Italy Branch (2016: 29). 25 are resident in Sweden as staff of the Sweden Branch (2016: nil) 25 are resident in the Netherlands as staff of the Netherlands Branch (2016: 26) 1 is resident in Switzerland (2016: 2) as the Manager of its Representative Office and 2 are resident in Poland in the Poland Branch (2016: 3). The Group has made and continues to make available a number of its employees to be engaged either on a full-time or part-time basis in the performance of certain functions or operations in connection with the Company’s business.

Note 6 General and administrative expenses

GBP million	31.12.17	31.12.16
Occupancy	1	1
Rent and maintenance of IT and other equipment	1	1
Administration[1]	557	516
Travel and entertainment	3	3
Professional fees	2	3
Communication and market data services	2	1
Litigation	3	18
Total general and administrative expenses	569	543

1 Administration costs are mainly expenses against other UBS companies.

Note 7 Directors' emoluments

GBP 000's	31.12.17	31.12.16
Remuneration charged in the Company	800	720

Additional Directors' remuneration in respect of qualifying services borne by UBS AG were as follows:

GBP 000's	31.12.17	31.12.16
Aggregate remuneration of the Directors for the year	1,626	1,520
Total remuneration of the highest paid Director	901	851

Note 8 Income taxes

GBP million	31.12.17	31.12.16
Current taxation		
Corporation tax - current year	45	45
Corporation tax - prior year	(2)	0
Total current tax charge for the year	43	45
Deferred taxation		
Charge / (credit) for the year	40	126
Total tax charge/(credit)	83	171

Factors affecting tax charge for year

The tax provided for the year differs from the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%). The differences are explained below:

GBP million	31.12.17	31.12.16
Profit on ordinary activities before tax	197	197
Tax charge at 19.25% (2016: 20.00%)	38	39
Effects of:		
Bank surcharge	*14*	*14*
Utilization of previously unrecognized tax losses	*(10)*	*(13)*
Change in recognition of deferred tax on tax losses	*40*	*124*
Expenses not deductible for tax purposes	*3*	*5*
Change in UK taxation rates	*0*	*2*
Adjustments in respect of prior periods	*(2)*	*0*
Total tax charge / (credit)	83	171

The financial statements have been prepared on the basis that the Company is able to offset part of its taxable profits against losses transferred from UBS AG. During 2016, HM Revenue & Customs indicated that they do not agree with this tax return filing position but H M Revenue & Customs have now advised that they accept that a transfer can occur and have also accepted the Company's proposed methods to calculate the amount of taxable losses to be transferred as adopted on the tax return filing position.

Note 9 Deferred tax assets

GBP million	31.12.17	31.12.16
At beginning of the year	47	172
Credit/ (charge) to income statement for current year (note 8)	(40)	(126)
Other movements	–	1
At end of the year	7	47
Comprising		
Tax losses carried forward	6	46
Other temporary differences	1	1
Total deferred tax assets	7	47

The Company has recognized a deferred tax asset of £7 million (2016: £47 million) in relation to UK tax losses carried forward and other temporary differences and this is based on expected profitability using business plan assumptions as adjusted to take into account the recognition criteria of IAS 12, Income Taxes. A deferred tax asset has not been recognized in respect of UK tax losses carried forward of approximately £1,940 million (2016: £1,780 million). The UK tax losses are not subject to expiry and can be carried forward indefinitely so that a proportion of the future UK taxable profits from the same trade can be reduced accordingly.

Note 10 Auditor's remuneration

During the year, fees of £597 thousand (2016: £544 thousand) in connection with the audit of the Company's annual Financial Statements and £223 thousand (2016: £220 thousand) in connection with audit related assurance services were paid by UBS AG on the Company's behalf and there will be no recharge to the Company. No other assurance fees have been charged (2016:nil).

Note 11 Bank levy

UBS AG is the responsible member of the Group and is liable for the bank levy arising in respect of the chargeable equity and liabilities of all Group companies. The bank levy charge for the year ended 31 December 2017 was £3.0 million (2016: £7.4 million) and is recorded as an administration expense.

Balance sheet notes: assets

Note 12 Due from banks and loans

GBP million	31.12.17	31.12.16
Due from banks, net[2]	1,189	1,054
Loans and advances to customers, net[1]	722	1,054
Total due from banks and loans, net	1,911	2,107

1 Includes £524m (2016: £452m) contributing to membership funds: £484m within Clearing and Execution business and £41m within Group ALM that are required by various exchanges / central clearing counterparties to cover losses from any clearing member defaulting. 2 Due from banks includes £192m (2016: £343m) relating to cash margin on exchanges in the Clearing and Execution business.

Note 13 Cash collateral on securities borrowed and lent, repurchase and reverse repurchase agreements and derivative instruments

The Company enters into collateralized reverse repurchase and repurchase agreements, securities borrowing and securities lending transactions and derivative transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil its contractual obligations. The Company manages credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Company when deemed necessary.

GBP million	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral receivable on derivative instruments	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral receivable on derivative instruments
	31.12.17	31.12.17	31.12.17	31.12.16	31.12.16	31.12.16
By counterparty						
Banks	4,269	3,487	3,325	2,753	955	3,587
Customers	41	1,370	2,184	47	1,683	2,903
Total	4,310	4,856	5,509	2,799	2,638	6,490

GBP million	Cash collateral on securities lent	Repurchase agreements	Cash collateral payable on derivative instruments	Cash collateral on securities lent	Repurchase agreements	Cash collateral payable on derivative instruments
	31.12.17	31.12.17	31.12.17	31.12.16	31.12.16	31.12.16
By counterparty						
Banks	105	4,265	4,354	228	3,457	4,781
Customers	–	33	1,193	–	15	1,371
Total	105	4,298	5,548	228	3,472	6,153

Note 14 Allowances and provisions for credit losses

GBP million		
By movement	31.12.17	31.12.16
Balance at the beginning of the year	–	–
Write-offs / usage of provisions	–	(2)
Increase / (decrease) recognized in the income statement	1	2
Balance at the end of the year	1	–

Refer to Note 33: Risk, treasury and capital management for more information.

Note 15 Trading portfolio

GBP million	31.12.17	31.12.16
Trading portfolio assets by issuer type		
Debt instruments		
Government and government agencies	652	1,106
of which: Italy	*40*	*213*
of which: France	*37*	*72*
of which: Germany	*42*	*151*
of which: Spain	*1*	*73*
of which: UK	*515*	*332*
of which: Other	*17*	*264*
Banks	180	205
Corporates and other	912	642
Total debt instruments	1,744	1,954
Equity instruments issued by corporates	2,378	2,783
Total trading portfolio assets	4,122	4,737
Trading portfolio liabilities by issuer type		
Debt instruments		
Government and government agencies	457	1,479
of which: Italy	*17*	*418*
of which: France	*30*	*89*
of which: Germany	*11*	*187*
of which: Spain	*4*	*66*
of which: UK	*383*	*424*
of which: Other	*12*	*295*
Banks	181	206
Corporates and other	624	529
Total debt instruments	1,262	2,214
Equity instruments issued by corporates	3,668	3,605
Total trading portfolio liabilities	4,931	5,819

GBP million	31.12.17	31.12.16
Trading portfolio assets by product type		
Debt instruments		
Government bills / bonds	635	1,085
Corporate bonds and municipal bonds, including bonds issued by financial institutions	804	724
Loans	102	57
Investment fund units	202	88
Total debt instruments	1,744	1,954
Equity instruments	2,378	2,783
Total trading portfolio assets	4,122	4,737
Trading portfolio liabilities by product type		
Debt instruments		
Government bills / bonds	445	1,473
Corporate bonds and municipal bonds, including bonds issued by financial institutions	591	669
Loans	102	57
Investment fund units	125	15
Total debt instruments	1,262	2,214
Equity instruments	3,668	3,605
Total trading portfolio liabilities	4,931	5,819

Note 16 Derivative instruments

Derivatives: overview

A *derivative* is a financial instrument, the value of which is derived from the value of one or more variables (underlyings). Underlyings may be indices, foreign currency exchange or interest rates, or the value of shares, commodities, bonds or other financial instruments. A derivative commonly requires little or no initial net investment by either counterparty to the trade.

The majority of derivative contracts are negotiated with respect to notional amounts, tenor, price and settlement mechanisms, as is customary with other financial instruments.

Over-the-counter ("OTC") derivative contracts are usually traded under a standardized International Swaps and Derivatives Association (ISDA) master agreement between the Company and its counterparties. Terms are negotiated directly with counterparties and the contracts will have industry-standard settlement mechanisms based on ISDA forms and market practice. The use of central counterparties ("CCPs") to clear OTC trades is increasingly becoming mandatory. The trend toward CCP clearing and settlement will generally facilitate the reduction of systemic credit exposures.

Other derivative contracts are standardized in terms of their amounts and settlement dates, and are bought and sold on regulated exchanges. These are commonly referred to as exchange-traded derivatives ("ETD") contracts. Exchanges offer the benefits of pricing transparency, standardized daily settlement of changes in value, and consequently reduced credit risk.

For presentation purposes, the derivative contracts are subject to IFRS netting provisions. Derivative instruments are measured at fair value and generally classified as Positive replacement values and Negative replacement values on the face of the balance sheet. However, ETD which are economically settled on a daily basis and OTC derivatives, which are either legally settled or, in substance, net settled on a daily basis, are classified as Cash collateral receivables on derivative instruments or Cash collateral payables on derivative instruments. Changes in the replacement values of derivatives are recorded in Net trading income.

Derivative product types, as well as valuation principles and techniques applied by the Company are described in Note 24. Positive replacement values represent the estimated amount the Group would receive if the derivative contract were sold on the balance sheet date. Negative replacement values indicate the estimated amount the Company would pay to transfer its obligations in respect of the underlying contract, were it required or entitled to do so on the balance sheet date.

Derivatives embedded in other financial instruments are not included in the table 'Replacement values' within this Note. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract. In cases where the Company applies the fair value option to hybrid instruments, bifurcation of an embedded derivative component is not required and, as such, this component is also not included in the table 'Replacement values'. Refer to note 18: Financial assets designated at fair value, Note 21: Financial liabilities designated at fair value and Note 24: Fair value measurement for more information.

Risk of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is predominantly managed and controlled as an integral part of the market risk of these portfolios. The Company's approach to market risk is described in Note 33: Risk, treasury and capital management.

Derivative instruments are also transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Company's overall credit exposure to its counterparties. The Company's approach to credit risk is described in Note 33: Risk, treasury and capital management. It should be noted that, although the positive replacement values shown on the balance sheet can be an important component of the Company's credit exposure, the positive replacement values for a respective counterparty are rarely an adequate reflection of the Company's credit exposure in its derivatives business with that counterparty. This is generally the case because, on the one hand, replacement values can increase over time (potential future exposure), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements. Both the exposure measures used internally by the Company to control credit risk and the capital requirements imposed by regulators reflect these additional factors.

The notional amount of a derivative is generally the quantity of the underlying instrument on which the derivative contract is based and is the reference against which changes in the value of the derivative are measured. Notional values, in themselves, are generally not a direct indication of the values which are exchanged between parties, and are therefore not a direct measure of risk or financial exposure, but are viewed as an indication of the scale of the different types of derivatives entered into by the Company.

The maturity profile of OTC interest rate contracts held as of 31 December 2017, based on notional values, was: approximately 30% (31 December 2016: 24%) mature within one year, 33% (31 December 2016: 45%) within one to five years and 37% (31 December 2016: 31%) after five years. Notional values of interest rate contracts cleared with a clearing house that qualify for IFRS balance sheet netting or are legally settled on a daily basis are presented under other notional values and are categorized into maturity buckets on the basis of contractual maturities of the cleared underlying derivative contracts.

Replacement values

GBP million	31.12.17					31.12.16				
	Total PRV[1]	Notional values related to PRVs[3]	Total NRV[2]	Notional values related to NRVs[3]	Other notional values[3,4]	Total PRV[1]	Notional values related to PRVs[3]	Total NRV[2]	Notional values related to NRVs[3]	Other notional values[3,4]
Interest rate contracts										
Over-the-counter (OTC) contracts										
Forward contracts[6]	27	3,659	16	2,282	–	48	5,468	48	5,017	13,075
Swaps	3,843	60,969	4,255	67,619	142,453	5,699	74,488	6,294	83,619	134,392
Options	957	43,266	936	42,163	–	2,721	76,103	2,694	72,266	–
Exchange-traded contracts										
Futures	–	–	–	–	1,526	–	–	–	–	3,817
Agency transactions[5]	10	–	10	–	–	26	–	26	–	–
Total	4,837	107,895	5,216	112,063	143,980	8,495	156,059	9,062	160,902	151,284
Credit derivative contracts										
Over-the-counter (OTC) contracts										
Credit default swaps	183	3,092	144	3,417	–	173	4,477	180	5,086	–
Total rate of return swaps	43	169	24	108	–	8	6	13	11	–
Total	226	3,261	167	3,524	–	181	4,484	193	5,097	–
Foreign exchange contracts										
Over-the-counter (OTC) contracts										
Forward contracts	155	9,013	155	8,908	–	300	9,238	298	8,644	–
Interest and currency swaps	2,388	60,583	2,337	56,107	–	4,156	73,350	4,167	69,121	–
Options	63	5,679	75	5,849	–	111	4,610	113	4,695	–
Exchange-traded contracts										
Agency transactions[5]	1	–	1	–	–	1	–	1	–	–
Total	2,607	75,275	2,568	70,864	–	4,568	87,197	4,578	82,461	–
Equity / index contracts										
Over-the-counter (OTC) contracts										
Forwards[6]	109	7,889	101	6,537	–	63	8,497	69	6,869	–
Swaps	147	6,441	151	6,207	–	222	7,800	114	3,647	–
Options and warrants	838	8,009	840	7,554	–	852	6,611	819	6,649	–
Exchange-traded contracts										
Futures	–	–	–	–	1,284	–	–	–	–	713
Options	–	64	–	91	–	–	355	26	237	–
Agency transactions[5]	2,245	–	2,243	–	–	2,516	–	2,487	–	–
Total	3,339	22,403	3,334	20,389	1,284	3,652	23,263	3,516	17,402	713
Precious metal contracts										
Over-the-counter (OTC) contracts										
Options	2	33	2	32	–	9	99	9	95	–
Exchange-traded contracts										
Agency transactions[5]	4	–	4	–	–	17	–	17	–	–
Total	6	33	6	32	–	27	99	27	95	–
Commodities contracts, excluding precious metals contracts										
Over-the-counter (OTC) contracts										
Swaps	9	171	9	171	–	3	250	3	250	–
Options	–	–	–	–	–	1	69	1	53	–
Exchange-traded contracts										
Agency transactions[5]	731	–	731	–	–	525	–	525	–	–
Total	740	171	740	171	–	529	319	529	302	–
Total replacement values	11,754	209,038	12,032	207,043	145,263	17,451	271,421	17,904	266,259	151,997

1 PRV: Positive replacement values. 2 NRV: Negative replacement values. 3 In cases where replacement values are presented on a net basis on the balance sheet, the respective notional values of the netted replacement values are still presented on a gross basis. 4 Other notional values relate to derivatives which are cleared through either a central clearing counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivative instruments and were not material for the periods presented. 5 Notional values of exchange-traded agency transactions are not disclosed due to their significantly different risk profile. 6 Changes in the fair value of purchased and sold non-derivative financial investments between trade date and settlement date are recognized as replacement values. 2017 includes PRV £134 million, NRV £113 million (2016: PRV £98 million, NRV £107 million). Notional amounts related to these replacement values are PRV £10,844 million, NRV £8,183 million (2016: PRV £10,313 million, NRV £8,333 million).

Note 17 Financial investments classified as available-for-sale

Financial investments available-for-sale by issuer type

GBP million	31.12.17	31.12.16
Debt instruments		
Government and government agencies	–	52
Banks	–	69
Total debt instruments	–	121
Equity instruments issued by corporates	2	2
Total financial investments available-for-sale	2	123
Unrealized gains - before tax	1	1
Net unrealized gains - before tax	1	1
Net unrealized gains - after tax	1	1

Financial investments available-for-sale by product type

GBP million	31.12.17	31.12.16
Government bills/bonds	–	52
Corporate bonds and municipal bonds	–	69
Total debt instruments	–	121
Equity instruments	2	2
Shares	2	2
Total financial investments available-for-sale	2	123

Note 18 Financial assets designated at fair value

GBP million	31.12.17	31.12.16
Structured loans	80	53
Structured reverse repos and securities borrowing arrangements	20	238
of which: banks	*19*	*236*
of which: customers	*1*	*1*
Government Bills / Bonds	712	1,946
Corporate and municipal bonds	1,903	1,386
Equity instruments	–	309
Financial assets designated at fair value	2,715	3,931

Note 19 Other assets

GBP million	31.12.17	31.12.16
Accrued income	26	37
Settlement accounts	87	18
Other tax receivables	6	5
Other	38	54
Total other assets	158	114

Balance sheet notes: liabilities

Note 20 Due to banks and customers

GBP million	31.12.17	31.12.16
Due to banks	4,777	2,715
Due to customers: demand deposits	88	69
Due to customers: time deposits	270	317
Total due to customers	359	385
Total due to banks and customers	5,135	3,100

Due to banks includes £685 million (2016: £686 million) of subordinated loans issued to UBS AG. These comprise EUR 528 million and USD 292 million (2016: EUR 528 million and USD 292 million), of floating rate loans which are both due to mature in May 2024.

Note 21 Financial liabilities at fair value

GBP million	31.12.17	31.12.16
Structured OTC debt instruments	80	350
Equity linked	1	297
Other	79	53
Structured repurchase agreements	180	374
Financial liabilities designated at fair value	260	724

As of 31 December 2017, the contractual redemption amount at maturity of Financial liabilities designated at fair value through profit and loss was £10 million (2016: £11 million) higher than the carrying value. Refer to Note 27b Maturity analysis of financial liabilities for maturity information on an undiscounted cash flow basis.

Note 22 Provisions

a) Provisions

GBP million	Litigation matters[1]	Operational risks[2]	Other	Total 31.12.17	Total 31.12.16
Balance at the beginning of the year	37	3	1	41	29
Increase in provisions recognized in the income statement	3	1	2	5	23
Release in provisions recognized in the income statement	–	(1)	(1)	(2)	(1)
Provisions used	(12)	–	(1)	(13)	(11)
Balance at the end of the year	28	3	1	31	41

1 Comprises provisions for losses resulting from legal, liability and compliance risks. 2 Comprises provisions for losses resulting from transaction processing risks.

During the year, the Company maintained a provision relating to litigation, regulatory and similar matters, totalling £27 million. In relation to this provision, the Company has claimed the disclosure exemption in IAS 37 paragraph 92, since the Company expects that disclosure of the details of this provision would seriously prejudice the position of the Company in relation to the other party/parties to the proceedings which are the subject matter of the provision, and the details of which are confidential to the parties. Any charges that may ultimately be made against this provision are expected to be recoverable pursuant to an indemnity provided by UBS AG, described in Note 33: Risk, treasury and capital management.

b) Litigation, regulatory and similar matters

The Company operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings. As a result, the Company may be involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations.

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

UBS Group AG, the Company's ultimate parent, provides information relating to provisions and contingent liabilities in respect of litigation, regulatory and similar matters in relation to itself and/or its subsidiaries in its regular public filings. This includes regulatory investigations and enquiries and related litigation relating to various matters concerning the UBS Group's business and operations, which may be relevant to the Company.

In the event that any of the matters described in this section result in an outflow of funds, the Company may have the benefit of an indemnity provided by UBS AG. The circumstances in which this indemnity will be applicable are described at Note 33: Risk, treasury and capital management.

Kommunale Wasserwerke Leipzig GmbH (KWL)

In 2006 and 2007, KWL entered into a series of Credit Default Swap transactions with bank swap counterparties, including UBS AG. In turn, UBS Limited entered into certain related back-to-back transactions with Depfa Bank plc and Landesbank Baden-Württemberg. The transaction with LBBW was subsequently novated from UBS Limited to UBS AG. Following non-payment by KWL, UBS terminated the CDS transactions and issued proceedings in the English High Court in 2010. These proceedings included claims (and counterclaims) in relation to the UBS Limited transactions.

The UBS parties' claims were dismissed by the Court and the UBS parties were ordered to pay part of the other parties' costs in the proceedings, which have not been fully determined. UBS appealed the judgment. On 16 October 2017, the Court of Appeal dismissed the appeal by a majority (2:1) decision. UBS has since sought permission from the Supreme Court to appeal, and is awaiting a decision on that application.

In November 2011, the SEC began an investigation focused on, among other things, the suitability of the KWL transaction, and information provided by UBS to KWL. On 28 February 2018, the SEC advised UBS that it was terminating its investigation without bringing any charges.

Note 23 Other liabilities

GBP million	31.12.17	31.12.16
Accrued expenses	77	89
Deferred income	4	–
Settlement accounts	141	–
Other tax payables	11	7
Other liabilities	62	101
Total other liabilities	295	198

Note 24 Fair value measurement

This note provides fair value measurement information for both financial and non-financial instruments and is structured as follows:
a) Valuation principles
b) Valuation governance
c) Fair value hierarchy
d) Valuation adjustments
e) Transfers between Level 1 and Level 2 in the fair value hierarchy
f) Level 3 instruments: valuation techniques and inputs
g) Level 3 instruments: sensitivity to changes in unobservable input assumptions
h) Level 3 instruments: movements during the period
i) Financial instruments not measured at fair value

a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market (or most advantageous market, in the absence of a principal market) as of the measurement date. In measuring fair value, the Company uses various valuation approaches and applies a hierarchy for prices and inputs that maximizes the use of observable market data, if available.

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

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

If available, fair values are determined using quoted prices in active markets for identical assets or liabilities. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing data on an ongoing basis. Assets and liabilities that are quoted and traded in an active market are valued at the currently quoted price multiplied by the number of units of the instrument held.

Where the market for a financial instrument or non-financial asset or liability is not active, fair value is established using a valuation technique, including pricing models. Valuation techniques involve the use of estimates, the extent of which depends on the complexity of the instrument and the availability of market-based data. Valuation adjustments may be made to allow for additional factors, including model, liquidity, credit and funding risks, which are not explicitly captured within the valuation technique, but which would nevertheless be considered by market participants when establishing a price. The limitations inherent in a particular valuation technique are considered in the determination of an asset or liability's classification within the fair value hierarchy.

Many cash instruments and over-the-counter (OTC) derivative contracts have bid and offer prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Offer prices represent the lowest price that a party is willing to accept for an asset. In general, long positions are measured at a bid price and short positions at an offer price, reflecting the prices at which the instruments could be transferred under normal market conditions. Offsetting positions in the same financial instrument are marked at the mid-price within the bid-offer spread.

Generally, the unit of account for a financial instrument is the individual instrument, and the Company applies valuation adjustments at an individual instrument level, consistent with that unit of account. However, if certain conditions are met, the Company may estimate the fair value of a portfolio of financial assets and liabilities with substantially similar and offsetting risk exposures on the basis of the net open risks.

b) Valuation governance

UBS Limited's fair value measurement and model governance framework includes numerous controls and other procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products and valuation techniques must be reviewed and approved by key stakeholders from risk and finance control functions. Responsibility for the ongoing measurement of financial and non-financial instruments at fair value resides with the business divisions. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of external market data and to provide justification and rationale for their fair value estimates. Fair value estimates are validated by risk and finance control functions, which are independent of the business divisions.

Independent price verification is performed by Finance through benchmarking the business divisions' fair value estimates with observable market prices and other independent sources. Controls and governance are in place to ensure the quality of third-party pricing sources where used. For instruments where valuation models are used to determine fair value, independent valuation and model control groups within finance and risk evaluate UBS Limited's models on a regular basis, including valuation and model input parameters as well as pricing. As a result of the valuation controls employed, valuation adjustments may be made to the business divisions' estimates of fair value to align with independent market data and the relevant accounting standard. Refer to Note 24d for more information.

c) Fair value hierarchy

The table below provides the fair value hierarchy classification of financial and non-financial assets and liabilities measured at fair value. The narrative that follows describes the different product types and valuation techniques used in measuring their fair value, including significant valuation inputs and assumptions used, and the factors determining their classification within the fair value hierarchy.

Determination of fair values from quoted market prices or valuation techniques

	31.12.17				31.12.16			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
GBP million	Quoted market price	Market observable inputs	Non–market observable inputs		Quoted market price	Market observable inputs	Non–market observable inputs	
Financial assets held for trading	3,083	1,033	5	4,122	3,758	920	58	4,737
of which:								
Government bills/bonds	*627*	*8*	*–*	*635*	*938*	*147*	*–*	*1,085*
Corporate & municipal bonds	*–*	*802*	*2*	*804*	*–*	*723*	*1*	*724*
Loans	*–*	*101*	*1*	*102*	*–*	*–*	*57*	*57*
Investment fund units	*106*	*95*	*2*	*202*	*48*	*39*	*–*	*88*
Equity instruments	*2,350*	*27*	*1*	*2,378*	*2,772*	*11*	*–*	*2,783*
Positive replacement values	132	11,187	435	11,754	68	16,754	628	17,451
of which:								
Interest rate contracts	*1*	*4,655*	*156*	*4,812*	*–*	*8,178*	*280*	*8,458*
Credit derivative contracts	*–*	*158*	*67*	*226*	*–*	*92*	*89*	*181*
Foreign exchange contracts	*3*	*2,532*	*72*	*2,607*	*1*	*4,477*	*89*	*4,568*
Equity / Index contracts	*–*	*3,090*	*139*	*3,229*	*–*	*3,421*	*170*	*3,589*
Precious metal	*–*	*6*	*–*	*6*	*–*	*27*	*–*	*27*
Commodities contracts	*–*	*740*	*–*	*740*	*–*	*528*	*1*	*529*
Unsettled purchases/sales of non-derivative fin. assets	*128*	*5*	*–*	*134*	*66*	*32*	*–*	*98*
Financial assets designated at fair value	475	2,162	78	2,715	1,742	1,910	279	3,931
of which:								
Loans (including structured loans)	*–*	*11*	*69*	*80*	*–*	*320*	*41*	*361*
Structured reverse repurchase agreements and securities borrowing agreements	*–*	*12*	*9*	*21*	*–*	*–*	*238*	*238*
Government bills / bonds	*359*	*352*	*–*	*712*	*1,742*	*204*	*–*	*1,946*
Corporate & municipal bonds	*116*	*1,787*	*–*	*1,903*	*–*	*1,386*	*–*	*1,386*
Financial investments available-for-sale	–	–	2	2	52	69	2	123
of which:								
Government bills / bonds	*–*	*–*	*–*	*–*	*52*	*–*	*–*	*52*
Corporate & municipal bonds	*–*	*–*	*–*	*–*	*–*	*69*	*–*	*69*
Equity instruments	*–*	*–*	*2*	*2*	*–*	*–*	*2*	*2*
Total financial assets	3,690	14,382	521	18,592	5,620	19,654	967	26,240

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

	31.12.17				31.12.16			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
GBP million	Quoted market price	Market observable inputs	Non–market observable inputs		Quoted market price	Market observable inputs	Non–market observable inputs	
Trading portfolio liabilities	4,202	728	1	4,931	4,939	824	57	5,819
of which:								
Government bills/bonds	*438*	*7*	*–*	*445*	*1,323*	*150*	*–*	*1,473*
Corporate & municipal bonds	*–*	*591*	*–*	*591*	*–*	*668*	*–*	*668*
Loans	*–*	*101*	*1*	*102*	*0*	*1*	*57*	*57*
Investment fund units	*110*	*15*	*–*	*125*	*11*	*4*	*–*	*15*
Equity instruments	*3,653*	*15*	*–*	*3,668*	*3,605*	*–*	*–*	*3,605*
Negative replacement values	111	11,486	434	12,032	74	17,205	627	17,906
of which:								
Interest rate contracts	*–*	*4,991*	*153*	*5,144*	*–*	*8,745*	*280*	*9,025*
Credit derivative contracts	*–*	*153*	*75*	*227*	*–*	*104*	*89*	*193*
Foreign exchange contracts	*2*	*2,498*	*68*	*2,568*	*1*	*4,489*	*88*	*4,578*
Equity / Index contracts	*–*	*3,094*	*139*	*3,233*	*–*	*3,277*	*170*	*3,446*
Precious metal	*–*	*6*	*–*	*6*	*–*	*27*	*–*	*27*
Commodities contracts	*–*	*740*	*–*	*740*	*–*	*528*	*1*	*529*
Unsettled purchases/sales of non-derivative fin. assets	*109*	*4*	*–*	*113*	*73*	*35*	*–*	*108*
Financial liabilities designated at fair value	–	181	79	260	–	366	358	724
of which:								
Loans (including structured loans)	*–*	*11*	*69*	*80*	*–*	*308*	*41*	*350*
Structured repurchase agreements	*–*	*170*	*10*	*180*	*–*	*57*	*317*	*374*
Total financial liabilities	4,313	12,395	515	17,223	**5,013**	**18,394**	**1,042**	**24,449**

Valuation techniques

Valuation techniques are used to value positions for which a market price is not available from market sources. This includes certain less liquid debt and equity instruments, certain exchange-traded derivatives and all derivatives transacted in the OTC market. The Company uses widely recognized valuation techniques for determining the fair value of financial and non-financial instruments that are not actively traded and quoted. The most frequently applied valuation techniques include discounted value of expected cash flows, relative value and option pricing methodologies.

Discounted value of expected cash flows is a valuation technique that measures fair value using estimated expected future cash flows from assets or liabilities and then discounts these cash flows using a discount rate or discount margin that reflects the credit and / or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a present value. When using such valuation techniques, expected future cash flows are estimated using an observed or implied market price for the future cash flows or by using industry standard cash flow projection models. The discount factors within the calculation are generated using industry standard yield curve modeling techniques and models.

Relative value models measure fair value based on the market prices of equivalent or comparable assets or liabilities, making adjustments for differences between the characteristics of the observed instrument and the instrument being valued.

Option pricing models incorporate assumptions regarding the behavior of future price movements of an underlying referenced asset or assets to generate a probability-weighted future expected payoff for the option. The resulting probability-weighted expected payoff is then discounted using discount factors generated from industry standard yield curve modeling techniques and models. The option pricing model may be implemented using a closed-form analytical formula or other mathematical techniques (e.g., binomial tree or Monte Carlo simulation).

Where available, valuation techniques use market-observable assumptions and inputs. If such data is not available, inputs may be derived by reference to similar assets in active markets, from recent prices for comparable transactions or from other observable market data. In such cases, the inputs selected are based on historical experience and practice for similar or analogous instruments, derivation of input levels based on similar products with observable price levels and knowledge of current market conditions and valuation approaches.

For more complex instruments and instruments not traded in an active market, fair values may be estimated using a combination of observed transaction prices, consensus pricing services and relevant quotes. Consideration is given to the nature of the quotes (e.g. indicative or firm) and the relationship of recently evidenced market activity to the prices provided by consensus pricing services. The Company also uses internally developed models, which are typically based on valuation methods and techniques recognized as standard within the industry. Assumptions and inputs used in valuation techniques include benchmark interest rate curves, credit and funding spreads used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation. Refer to Notes 24f for more information. The discount curves used by the Company incorporate the funding and credit characteristics of the instruments to which they are applied.

Financial instruments excluding derivatives: product description, valuation and classification in the fair value hierarchy

Government bills and bonds

Product description: government bills and bonds include fixed-rate, floating-rate and inflation-linked bills and bonds issued by sovereign governments.

Valuation: these instruments are generally valued using prices obtained directly from the market. Instruments that cannot be priced directly using active market data are valued using discounted cash flow valuation techniques that incorporate market data for similar government instruments.

Fair value hierarchy: Government bills and bonds are generally traded in active markets with prices that can be obtained directly from these markets, resulting in classification as Level 1, while the remaining positions are classified as Level 2.

Corporate and municipal bonds

Product description: corporate bonds include senior, junior and subordinated debt issued by corporate entities. Municipal bonds are issued by state and local governments. While most instruments are standard fixed or floating-rate securities, some may have more complex coupon or embedded option features.

Valuation: corporate and municipal bonds are generally valued using prices obtained directly from the market for the security, or similar securities, adjusted for seniority, maturity and liquidity. When prices are not available, instruments are valued using discounted cash flow valuation techniques incorporating the credit spread of the issuer or similar issuers. For convertible bonds where no directly comparable price is available, issuances may be priced using a convertible bond model.

Fair value hierarchy: corporate and municipal bonds are generally classified as Level 1 or Level 2 depending on the depth of trading activity behind price sources. Level 3 instruments have no suitable pricing information available and also cannot be referenced to other securities issued by the same issuer. Therefore, such instruments are measured based on price levels for similar issuers adjusted for relative tenor and issuer quality.

Traded loans and loans designated at fair value
Product description: these instruments include fixed rate loans, corporate loans, recently originated commercial real estate loans and contingent lending transactions.

Valuation: Loans are valued directly using market prices that reflect recent transactions or quoted dealer prices where available. Where no market price data are available, loans are valued using relative value benchmarking using pricing derived from debt instruments in comparable entities or different products in the same entity, or by using a credit default swap valuation technique, which requires inputs for credit spreads, credit recovery rates and interest rates. Recently originated commercial real estate loans are measured using a securitization approach based on rating agency guidelines. The valuation of the contingent lending transactions is dependent on actuarial mortality levels and actuarial life insurance policy lapse rates. Mortality and lapse rate assumptions are based on external actuarial estimations for large homogeneous pools, and contingencies are derived from a range relative to the actuarially expected amount.

Fair value hierarchy: Instruments with suitably deep and liquid pricing information are classified as Level 2, while any positions requiring the use of valuation techniques, or for which the price sources have insufficient trading depth, are classified as Level 3.

Investment fund units
Product description: investment fund units are pools of assets, generally equity instruments and bonds, broken down into redeemable units.

Valuation: investment fund units are predominantly exchange-traded, with readily available quoted prices in liquid markets. Where market prices are not available, fair value may be measured using net asset values (NAV), taking into account any restrictions imposed upon redemption.

Fair value hierarchy: listed units are classified as Level 1, provided there is sufficient trading activity to justify active market classification, while other positions are classified as Level 2. Positions for which NAV is not available or which are not redeemable at the measurement date or shortly thereafter are classified as Level 3.

Equity instruments
Product description: equity instruments include stocks and shares, private equity positions and units held in hedge funds.

Valuation: listed equity instruments are generally valued using prices obtained directly from the market. Unlisted equity holdings, including private equity positions, are initially marked at their transaction price and are revalued when reliable evidence of price movement becomes available or when the position is deemed to be impaired. Fair value for units held in hedge funds is measured based on their published NAV, taking into account any restrictions imposed upon redemption.

Fair value hierarchy: the majority of equity securities are actively traded on public stock exchanges where quoted prices are readily and regularly available, resulting in Level 1 classification. Units held in hedge funds are classified as Level 2, except for positions for which published NAV is not available or which are not redeemable at the measurement date or shortly thereafter, in which case such positions are classified as Level 3.

Structured (reverse) repurchase agreements designated at fair value
Product description: structured (reverse) repurchase agreements are securities purchased under resale agreements and securities sold under repurchase agreements.

Valuation: These instruments are valued using discounted expected cash flow techniques. The discount rate applied is based on funding curves that are specific to the collateral eligibility terms for the contract in question.

Fair value hierarchy: collateral terms for these positions are not standard and therefore funding spread levels used for valuation purposes cannot be observed in the market. As a result, these positions are mostly classified as Level 3.

Derivative instruments: product description, valuation and classification in the fair value hierarchy

The curves used for discounting expected cash flows in the valuation of collateralized derivatives reflect the funding terms associated with the relevant collateral arrangement for the instrument being valued. These collateral arrangements differ across counterparties with respect to the eligible currency and interest terms of the collateral. The majority of collateralized derivatives are measured using a discount curve that is based on funding rates derived from overnight interest in the cheapest eligible currency for the respective counterparty collateral agreement.

Uncollateralized and partially collateralized derivatives are discounted using the LIBOR (or equivalent) curve for the currency of the instrument. As described in Note 24d, the fair value of uncollateralized and partially collateralized derivatives is then adjusted by CVA, DVA and FVA as applicable, to reflect an estimation of the effect of counterparty credit risk, UBS's own credit risk and funding costs and benefits.

Interest rate contracts
Product description: interest rate swap contracts include interest rate swaps, basis swaps, cross-currency swaps, inflation swaps and interest rate forwards, often referred to as forward-rate agreements (FRA). Interest rate option contracts include caps and floors, swaptions, swaps with complex payoff profiles and other more complex interest rate options.

Valuation: interest rate swap contracts are valued by estimating future interest cash flows and discounting those cash flows using a rate that reflects the appropriate funding rate for the position being measured. The yield curves used to estimate future index levels and discount rates are generated using market standard yield curve models using interest rates associated with current market activity. The key inputs to the models are interest rate swap rates, FRA rates, short-term

interest rate futures prices, basis swap spreads and inflation swap rates. Interest rate option contracts are valued using various market standard option models, using inputs that include interest rate yield curves, inflation curves, volatilities and correlations. The volatility and correlation inputs within the models are implied from market data based on market observed prices for standard option instruments trading within the market. Option models used to value more exotic products have a number of model parameter inputs that require calibration to enable the exotic model to price standard option instruments to the price levels observed in the market. When the maturity of the interest rate swap or option contract exceeds the term for which standard market quotes are observable for a significant input parameter, the contracts are valued by extrapolation from the last observable point using standard assumptions or by reference to another observable comparable input parameter to represent a suitable proxy for that portion of the term.

Fair value hierarchy: the majority of interest rate swaps are classified as Level 2 as the standard market contracts that form the inputs for yield curve models are generally traded in active and observable markets. Options are generally treated as Level 2 as the calibration process enables the model output to be validated to active market levels. Models calibrated in this way are then used to revalue the portfolio of both standard options as well as more exotic products. In most cases, there are active and observable markets for the standard market instruments that form the inputs for yield curve models as well as the financial instruments from which volatility and correlation inputs are derived. Exotic options for which appropriate volatility or correlation input levels cannot be implied from observable market data are classified as Level 3. Interest rate swap or option contracts are classified as Level 3 when the term exceeds standard market observable quotes.

Credit derivative contracts

Product description: a credit derivative is a financial instrument that transfers credit risk related to a single underlying entity, a portfolio of underlying entities or a pool of securitized referenced assets. Credit derivative products include credit default swaps (CDS) on single names, indices, bespoke portfolios and securitized products, plus first to default swaps and certain total return swaps (TRS).

Valuation: credit derivative contracts are valued using industry standard models based primarily on market credit spreads, upfront pricing points and implied recovery rates. Where a derivative credit spread is not directly available it may be derived from the price of the reference cash bond. Correlation is an additional input for certain portfolio credit derivatives. Asset backed credit derivatives are valued using a similar valuation technique to the underlying security with an adjustment to reflect the funding differences between cash and synthetic form. Inputs include prepayment rates, default rates, loss severity, discount margin / rate.

Fair value hierarchy classification: single entity and portfolio credit derivative contracts are classified as Level 2 when credit spreads, recovery rates and correlations are determined from actively traded observable market data. Where the underlying reference name(s) are not actively traded and the correlation cannot be directly mapped to actively traded tranche instruments, these contracts are classified as Level 3. Asset backed credit derivatives follow the characteristics of the underlying security and are therefore distributed across Level 2 and Level 3.

Foreign exchange (FX) contracts

Product description: this includes open spot and forward foreign exchange (FX) contracts and OTC FX option contracts. OTC FX option contracts include standard call and put options, options with multiple exercise dates, path-dependent options, options with averaging features, options with discontinuous pay-off characteristics, options on a number of underlying FX rates and multi-dimensional FX option contracts, which have a dependency on multiple FX pairs.

Valuation: open spot FX contracts are valued using the FX spot rate observed in the market. Forward FX contracts are valued using the FX spot rate adjusted for forward pricing points observed from standard market-based sources. OTC FX option contracts are valued using market standard option valuation models. The models used for shorter-dated options (i.e., maturities of five years or less) tend to be different from those used for longer-dated options because the models needed for longer-dated OTC FX contracts require additional consideration of interest rate and FX rate interdependency. Inputs to the option valuation models include spot FX rates, FX forward points, FX volatilities, interest rate yield curves, interest rate volatilities and correlations. The inputs for volatility and correlation are implied through the calibration of observed prices for standard option contracts trading within the market. The valuation for multiple-dimensional FX options uses a multi-local volatility model, which is calibrated to the observed FX volatilities for all relevant FX pairs.

Fair value hierarchy: the markets for both FX spot and FX forward pricing points are both actively traded and observable and therefore such FX contracts are generally classified as Level 2. A significant proportion of OTC FX option contracts are classified as Level 2 as inputs are derived mostly from standard market contracts traded in active and observable markets. OTC FX option contracts classified as Level 3 include multiple-dimensional FX options and long-dated FX exotic option contracts where there is no active market from which to derive volatility or correlation inputs. The inputs used to value these OTC FX option contracts are calculated using consensus pricing services without an underlying principal market, historical asset prices or by extrapolation.

Equity / index contracts

Product description: equity / index contracts are equity forward contracts and equity option contracts. Equity option contracts include market standard single or basket stock or index call and put options as well as equity option contracts with more

complex features.

Valuation: equity forward contracts have a single stock or index underlying and are valued using market standard models. The key inputs to the models are stock prices, estimated dividend rates and equity funding rates (which are implied from prices of forward contracts observed in the market). Estimated cash flows are then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. When no market data is available for the instrument maturity they are valued by some form of extrapolation of available data, use of historical dividend data, or use of data for a related equity. Equity option contracts are valued using market standard models that estimate the equity forward level as described for equity forward contracts and incorporate inputs for stock volatility and for correlation between stocks within a basket. The probability-weighted expected option payoff generated is then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. When volatility, forward or correlation inputs are not available they are valued using extrapolation of available data, historical dividend, correlation or volatility data, or the equivalent data for a related equity.

Fair value hierarchy: as inputs are derived mostly from standard market contracts traded in active and observable markets, a significant proportion of equity forward contracts are classified as Level 2. Equity option positions for which inputs are derived from standard market contracts traded in active and observable markets are also classified as Level 2. Level 3 positions are those for which volatility, forward or correlation inputs are not observable.

Commodity contracts

Product description: commodity derivative contracts include forward, swap and option contracts on individual commodities and on commodity indices.

Valuation: commodity forward and swap contracts are measured using market standard models that use market forward levels on standard instruments. Commodity option contracts are measured using market standard option models that estimate the commodity forward level as described for commodity forward and swap contracts, incorporating inputs for the volatility of the underlying index or commodity. For commodity options on baskets of commodities or bespoke commodity indices, the valuation technique also incorporates inputs for the correlation between different commodities or commodity indices.

Fair value hierarchy: individual commodity contracts are typically classified as Level 2 because active forward and volatility market data are available.

→ **Refer to Note 16 for more information**

d) Valuation adjustments

The output of a valuation technique is always an estimate of a fair value that cannot be measured with complete certainty. As a result, valuations are adjusted, where appropriate and when such factors would be considered by market participants in estimating fair value, to reflect close-out costs, credit exposure, model-driven valuation uncertainty, funding costs and benefits, trading restrictions and other factors. Valuation adjustments are an important component of fair value for assets and liabilities that are measured using valuation techniques. Such adjustments are applied to reflect uncertainties within the fair value measurement process, to adjust for an identified model simplification or to incorporate an aspect of fair value that requires an overall portfolio assessment rather than an evaluation based on an individual instrument level characteristic.

The major classes of valuation adjustments are discussed in further detail below.

Own credit

In addition to considering the valuation of the derivative risk component, the valuation of financial liabilities designated at fair value also requires consideration of the funded component and specifically the own credit component of fair value. Own credit risk is reflected in the valuation of our fair value option liabilities where this component is considered relevant for valuation purposes by our counterparties and other market participants. However, own credit risk is not reflected in the valuation of our liabilities that are fully collateralized or for other obligations for which it is established market practice not to include an own credit component.

Own credit is estimated using an own credit adjustment curve (OCA), which incorporates observable market data, including market-observed secondary prices for UBS senior debt, UBS credit default swap (CDS) spreads and senior debt curves of peers. The table below summarizes the effects of own credit adjustments related to financial liabilities designated at fair value. The change in unrealized own credit for the period ended consists of changes in fair value that are attributable to the change in UBS's credit spreads, as well as the effect of changes in fair values attributable to factors other than credit spreads, such as redemptions, effects from time decay and changes in interest and other market rates. Realized own credit is recognized when an instrument with an associated unrealized own credit adjustment is repurchased prior to the contractual maturity date. Life-to-date amounts reflect the cumulative unrealized change since initial recognition.

Own credit on financial liabilities designated at fair value

GBP 000s	31.12.17	31.12.16
(Loss)/ gain for the year ended	(18,305)	(6,179)
Life-to-date gain/ (loss)	2,262	20,567

Credit valuation adjustments

In order to measure the fair value of OTC derivative instruments, including funded derivative instruments which are classified as *Financial assets designated at fair value*, credit valuation adjustments (CVA) are necessary to reflect the credit risk of the counterparty inherent in these instruments. This amount represents the estimated fair value of protection required to hedge the counterparty credit risk of such instruments. A CVA is determined for each counterparty, considering all exposures to that counterparty, and is dependent on the expected future value of exposures, default probabilities and recovery rates, applicable collateral or netting arrangements, break clauses and other contractual factors.

Funding valuation adjustments

Funding valuation adjustments (FVA) reflect the costs and benefits of funding associated with uncollateralized and partially collateralized derivative receivables and payables and are calculated as the valuation effect from moving the discounting of the uncollateralized derivative cash flows from LIBOR to OCA using the CVA framework. An FVA is also applied to collateralized derivative assets in cases where the collateral cannot be sold or repledged.

Debit valuation adjustments

A debit valuation adjustment (DVA) is estimated to incorporate own credit in the valuation of derivatives, effectively consistent with the CVA framework. DVA is determined for each counterparty, considering all exposures with that counterparty and taking into account collateral netting agreements, expected future mark-to-market movements and UBS's credit default spreads.

Other valuation adjustments

Instruments that are measured as part of a portfolio of combined long and short positions are valued at mid-market levels to ensure consistent valuation of the long and short component risks. A liquidity valuation adjustment is then made to the overall net long or short exposure to move the fair value to bid or offer as appropriate, reflecting current levels of market liquidity. The bid-offer spreads used in the calculation of this valuation adjustment are obtained from market transactions and other relevant sources and are updated periodically.

Other valuation adjustments on financial instruments

Life-to-date gain / (loss), GBP million	31.12.17	31.12.16
Credit valuation adjustments	(16)	(42)
Funding valuation adjustments	(28)	(45)
Debit valuation adjustments	–	1
Other valuation adjustments	(3)	(2)
of which: Bid-offer/liquidity adjustments	*(3)*	*(2)*

e) Transfers between Level 1 and Level 2

There have been no material movements between level 1 and level 2 for the period ending December 2017.

f) Level 3 instruments: valuation techniques and inputs

The table below presents material Level 3 assets and liabilities together with the valuation techniques used to measure fair value, the significant inputs used in the valuation technique that are considered unobservable and a range of values for those unobservable inputs. Several inputs disclosed in prior periods are not disclosed in the table below because they are not considered significant to the respective valuation technique as of 31 December 2017.

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

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

	Fair value						Range of inputs				
	Assets		Liabilities		Valuation technique(s)	Significant unobservable input(s)	31.12.17		31.12.16		units[1]
GBP million	31.12.17	31.12.16	31.12.17	31.12.16			low	high	low	high	
Financial assets held for trading/ Trading portfolio assets, Financial assets/liabilities designated at fair value and Financial investments available-for-sale											
Loans (including structured loans)	74	101	70	98	Relative value to market comparable	Loan price equivalent	93	93	93	98	points
Replacement values											
Interest rate derivative contracts, net	156	280	153	280	Option model	Volatility of interest rates	26	229	26	176	%
Credit derivative contracts, net	67	89	75	89	Discounted expected cash flow	Credit spread	24	550	10	202	basis points
Equity/index derivative contracts, net	139	170	139	170	Option Model	Equity dividend yields	–	4	–	5	%
						Volatility of equity stocks, equity & other Indices	10	50	15	41	%
						Equity - FX correlation	(39)	59	(34)	70	%
						Equity to equity correlation	17	93	12	98	%

1 The ranges of significant unobservable inputs are represented in points, percentages and basis points. Points are a percentage of par. For example, 100 points would be 100% of par.

Significant unobservable inputs in Level 3 positions

This section discusses the significant unobservable inputs used in the valuation of Level 3 instruments and assesses the potential effect that a change in each unobservable input in isolation may have on a fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown. Relationships between observable and unobservable inputs have not been included in the summary below.

Loan price equivalent

Where market prices are not available for a traded loan, fair value is measured by comparison with observable pricing data for similar instruments. Factors considered when selecting comparable instruments include industry segment, collateral quality, maturity and issuer-specific covenants. Fair value may be measured either by a direct price comparison or by conversion of an instrument price into a yield. The range represents the range of prices derived from reference issuances of a similar credit quality used in measuring fair value for loans classified as Level 3. Loans priced at 0 are distressed to the point that no recovery is expected, while a current price of 100 represents a loan that is expected to be repaid in full.

Credit spread

Valuation models for many credit derivatives require an input for the credit spread, which is a reflection of the credit quality of the associated referenced underlying. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either US Treasury or LIBOR, and is generally expressed in terms of basis points. An increase / (decrease) in credit spread will increase / (decrease) the value of credit protection offered by CDS and other credit derivative products. The income statement effect from such changes depends on the nature and direction of the positions held. Credit spreads may be negative where the asset is more creditworthy than the benchmark against which the spread is calculated. A wider credit spread represents decreasing creditworthiness. The range represents a diverse set of underlyings, with the lower end of the range representing credits of the highest quality (e.g., approximating the risk of LIBOR) and the upper end of the range representing greater levels of credit risk.

Volatility

Volatility measures the variability of future prices for a particular instrument and is generally expressed as a percentage, where a higher number reflects a more volatile instrument for which future price movements are more likely to occur. The minimum level of volatility is 0% and there is no theoretical maximum. Volatility is a key input into option models, where it is used to derive a probability-based distribution of future prices for the underlying instrument. The effect of volatility on individual positions within the portfolio is driven primarily by whether the option contract is a long or short position. In most cases, the fair value of an option increases as a result of an increase in volatility and is reduced by a decrease in volatility. Generally, volatility used in the measurement of fair value is derived from active market option prices (referred to as implied volatility). A key feature of implied volatility is the volatility "smile" or "skew," which represents the effect of pricing options of different option strikes at different implied volatility levels. The volatility of interest rates reflects the range of unobservable volatilities across different currencies and related underlying interest rate levels. Volatilities of low interest rates tend to be much higher than volatilities of high interest rates. In addition, different currencies may have significantly different implied volatilities. The volatility of equity stocks, equity and other indices reflects the range of underlying stock volatilities.

Correlation

Correlation measures the inter-relationship between the movements of two variables. It is expressed as a percentage between -100% and +100%, where +100% represents perfectly correlated variables (meaning a movement of one variable is associated with a movement of the other variable in the same direction), and -100% implies the variables are inversely correlated (meaning a movement of one variable is associated with a movement of the other variable in the opposite direction). The effect of correlation on the measurement of fair value depends on the specific terms of the instruments being valued, due to the range of different payoff features within such instruments.

Equity-to-FX correlation is important for equity options based on a currency different than the currency of the underlying stock. Equity-to-equity correlation is particularly important for complex options that incorporate, in some manner, different equities in the projected payoff. The closer the correlation is to 100%, the more related one equity is to another. For example, equities with a very high correlation could be from different parts of the same corporate structure.

Equity dividend yields

The derivation of a forward price for an individual stock or index is important for measuring fair value for forward or swap contracts and for measuring fair value using option pricing models. The relationship between the current stock price and the forward price is based on a combination of expected future dividend levels and payment timings, and, to a lesser extent, the relevant funding rates applicable to the stock in question. Dividend yields are generally expressed as an annualized percentage of the share price with the lowest limit of 0% representing a stock that is not expected to pay any dividend. The dividend yield and timing represents the most significant parameter in determining fair value for instruments that are sensitive to an equity forward price.

g) Level 3 instruments: sensitivity to changes in unobservable input assumption

The information below summarizes those financial assets and liabilities classified as Level 3 for which a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, and the estimated effect thereof. As of 31 December 2017, the total favorable and unfavorable effects of changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions for financial instruments classified as Level 3 were £980 thousand and £1,002 thousand, respectively (31 December 2016: £1,189 thousand and £1,214 thousand, respectively).

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

Sensitivity data are estimated using a number of techniques including the estimation of price dispersion among different market participants, variation in modeling approaches and reasonably possible changes to assumptions used within the fair value measurement process. The sensitivity ranges are not always symmetrical around the fair values as the inputs used in valuations are not always precisely in the middle of the favorable and unfavorable range.

Sensitivity data are determined at a product or parameter level and then aggregated assuming no diversification benefit. The calculated sensitivity is applied to both the outright position and any related Level 3 hedge. The main interdependencies across different Level 3 products to a single unobservable input parameter have been included in the basis of netting exposures within the calculation. Aggregation without allowing for diversification involves the simple summation of individual results with the total sensitivity, therefore representing the effect of all unobservable inputs which, if moved to a reasonably possible favorable or unfavorable level at the same time, would result in a significant change in the valuation. Diversification would incorporate estimated correlations across different sensitivity results and, as such, would result in an overall sensitivity that would be less than the sum of the individual component sensitivities. The Company believes that, while there are diversification benefits within the portfolios representing these sensitivity numbers, they are not significant to this analysis.

h) Level 3 instruments: movements during the period

Significant changes in Level 3 instruments

The table on the following pages presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis. Level 3 assets and liabilities may be hedged with instruments classified as Level 1 or Level 2 in the fair value hierarchy and, as a result, realized and unrealized gains and losses included in the table may not include the effect of related hedging activity. Furthermore, the realized and unrealized gains and losses presented within the table are not limited solely to those arising from Level 3 inputs, as valuations are generally derived from both observable and unobservable parameters. Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the year. Assets transferred into and out of Level 3 totaled £26 million and £169 million, respectively. Transfers into Level 3 were primarily comprised of equity / index and credit derivative contracts, due to decreased observability of the respective equity volatility inputs and credit spread. Transfers out of Level 3 were primarily comprised of interest rate and equity / index contracts, reflecting increased observability of the respective rates volatility and equity volatility inputs. Liabilities transferred into and out of Level 3 totaled £53 million and £295 million, respectively. Transfers into Level 3 were primarily comprised of equity / index and credit derivative contracts, due to decreased observability of the respective equity volatility inputs and credit spreads. Transfers out of Level 3 were primarily comprised of structured repurchase agreements, equity / index contracts, and interest rate contracts resulting from changes in the availability of the observable equity volatility and rates volatility inputs used to determine the fair value of the options embedded in these structures.

Movements of level 3 instruments

		Total gains/losses included in the income statement		
GBP million	Balance as at 31 December 2016	Net income	*of which: related to Level 3 instruments held at the end of the reporting period*	Purchases
Financial assets held for trading	58	(1)	–	28
of which:				
Corporate and municipal bonds	*1*	–	–	*4*
Loans	*57*	–	–	–
Investment fund units	–	*(1)*	–	*21*
Equity instruments	–	*1*	*(1)*	*3*
Positive replacement values	628	(40)	*(52)*	–
of which:				
Interest rate contracts	*280*	*(39)*	*(39)*	–
Credit derivative contracts	*89*	*(20)*	*(24)*	–
Foreign Exchange contracts	*89*	*(15)*	*(15)*	–
Equity/Index contracts	*169*	*34*	*25*	–
Commodities contracts	*1*	–	–	–
Financial assets designated at fair value	279	7	*10*	–
of which:				
Loans	–	–	–	–
Structured loans	*40*	*18*	*21*	–
Structured reverse repurchase agreements and securities borrowing agreements	*238*	*(10)*	*(12)*	–
Equity instruments	*1*	–	–	–
Financial investments available-for-sale	2	–	–	–
of which:				
Equity instruments	*2*	–	–	–
Total financial assets	967	(34)	*(43)*	28
Trading portfolio liabilities	(57)	5	–	(3)
of which:				
Corporate and municipal bonds	–	*5*	–	–
Loans	*(57)*	–	–	*(1)*
Investment fund units	–	–	–	*(1)*
Equity instruments	–	–	–	*(1)*
Negative replacement values	(627)	40	*52*	–
of which:				
Interest rate contracts	*(280)*	*39*	*39*	–
Credit derivative contracts	*(89)*	*20*	*24*	–
Foreign Exchange contracts	*(88)*	*15*	*15*	–
Equity/Index contracts	*(170)*	*(34)*	*(25)*	–
Commodities contracts	*(1)*	–	–	–
Financial liabilities designated at fair value	(358)	(12)	*(17)*	–
of which:				
Structured loans	*(41)*	*(27)*	*(28)*	–
Structured repurchase agreements	*(317)*	*15*	*11*	–
Total financial liabilities	(1,042)	33	*36*	(3)

Sales	Issuances	Settlements	Transfers into level 3	Transfers out of Level 3	Foreign Currency Translation	Balance as at 31 December 2017
(76)	1	–	2	(7)	–	5
(3)	–	–	–	–	–	2
(50)	1	–	–	(6)	–	1
(19)	–	–	1	–	–	2
(4)	0	0	–	–	–	1
–	85	(96)	25	(162)	(4)	435
–	34	(21)	–	(95)	(4)	156
–	3	(9)	5	–	–	67
–	–	(4)	–	–	3	72
–	49	(62)	20	(66)	(4)	139
–	–	–	–	(1)	–	–
–	49	(260)	0	–	4	78
–	1	(1)	–	–	–	–
–	46	(37)	–	–	2	69
–	1	(221)	–	–	1	9
–	–	(1)	–	–	–	–
–	–	–	–	–	–	2
–	–	–	–	–	–	2
(76)	135	(356)	26	(169)	(1)	520
55	–	–	(8)	6	–	(2)
–	–	–	(5)	–	–	–
50	–	–	–	6	–	(1)
1	–	–	–	–	–	–
4	–	–	(3)	–	–	–
–	(86)	97	(31)	168	4	(434)
–	(34)	21	–	98	3	(153)
–	(3)	9	(13)	–	–	(75)
–	–	4	–	3	(3)	(68)
–	(49)	62	(18)	66	4	(139)
–	–	–	–	1	–	–
–	(4)	192	(14)	121-	(4)	(79)
–	–	1	–	–	(2)	(69)
–	(3)	191	(14)	121	(3)	(10)
55	(89)	288	(53)	295	–	(515)

i) Financial instruments not measured at fair value

The following table reflects the estimated fair values for the Company's financial instruments not measured at fair value.

Financial instruments not measured at fair value

	31.12.17					31.12.16				
	Carrying value	Fair value				Carrying value	Fair value			
GBP million	Total	Total	Level 1	Level 2	Level 3	Total	Total	Level 1	Level 2	Level 3
Assets										
Cash and balances with central banks	109	109	109	–	–	3	3	3	–	–
Due from banks	1,189	1,189	1,189	–	–	1,054	1,054	1,054	–	–
Cash collateral on securities borrowed	4,310	4,310	–	4,310	–	2,799	2,799	–	2,799	–
Reverse repurchase agreements	4,856	4,856	–	4,856	–	2,638	2,638	–	2,638	–
Cash collateral receivable on derivative instruments	5,509	5,509	–	5,509	–	6,490	6,490	–	6,490	–
Loans and advances to customers	722	722	–	685	37	1,052	1,054	–	765	288
Other amounts due from group undertakings	116	116	–	116	–	222	222	–	222	–
Other assets	158	158	–	158	–	114	114	–	114	–
Liabilities										
Due to banks	4,777	4,777	2,975	–	1,802	2,715	2,715	1,740	–	975
Cash collateral on securities lent	105	105	–	105	–	228	228	–	228	–
Repurchase agreements	4,298	4,298	–	4,298	–	3,472	3,472	–	3,472	–
Cash collateral payables on derivative instruments	5,548	5,548	–	5,548	–	6,153	6,153	–	6,153	–
Due to customers	359	359	–	359	–	385	385	–	385	–
Other amounts owed to group undertakings	101	101	–	101	–	116	116	–	116	–
Other liabilities	295	295	–	295	–	198	198	–	198	–

The fair values included in the table above were calculated for disclosure purposes only. The fair value valuation techniques and assumptions described below relate only to the fair value of the Company's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimation, and therefore such fair value disclosures cannot necessarily be compared from one financial institution to another. The Company applies significant judgments and assumptions to arrive at these fair values, which are more holistic and less sophisticated than the Company’s established fair value and model governance policies and processes applied to financial instruments accounted for at fair value whose fair values impact the Company’s balance sheet and net profit. The following principles were applied when determining fair value estimates for financial instruments not measured at fair value:

– For financial instruments with remaining maturities greater than three months, the fair value was determined from quoted market prices, if available.
– Where quoted market prices were not available, the fair values were estimated by discounting contractual cash flows using current market interest rates or appropriate yield curves for instruments with similar credit risk and maturity. These estimates generally include adjustments for counterparty credit or UBS’s own credit.
– The fair value estimates for repurchase and reverse repurchase agreements with variable and fixed interest rates, for all maturities, include the valuation of the interest rate component of these instruments. Credit and debit valuation adjustments have not been included in the valuation due to the short-term nature of these instruments.

Note 25 Restricted and transferred financial assets

a) Restricted financial assets

Restricted financial assets consist of assets pledged as collateral against an existing liability or contingent liability and other assets which are otherwise explicitly restricted such that they cannot be used to secure funding.

Financial assets are mainly pledged as collateral in securities lending transactions and in repurchase transactions. The Company generally enters into repurchase and securities lending arrangements under standard market agreements, with a market based haircut applied to the collateral, which results in the associated liabilities having a carrying value below the carrying value of the assets.

Other restricted financial assets include assets protected under client asset segregation rules. The carrying value of the liabilities associated with these other restricted financial assets is generally equal to the carrying value of the assets.

The Company held £2,062 million of client money under client segregation rules of which £374 million is included in cash and cash equivalents, (2016: £2,294 million, of which £157 million is included in cash and cash equivalents).

Restricted financial assets

GBP million	31.12.17	31.12.16
Financial assets pledged as collateral		
Trading portfolio assets	2,216	3,038
of which: assets pledged as collateral which may be sold or repledged by counterparties	*2,067*	*3,038*
Total financial assets pledged as collateral	2,216	3,038
Other restricted financial assets		
Due from banks	374	157
Cash collateral receivables on derivative instruments	1,688	2,137
Total other restricted financial assets	2,062	2,294
Total financial assets pledged and other restricted financial assets	4,278	5,332

b) Transferred financial assets that are not derecognized in their entirety

The table below presents information for financial assets, which have been transferred but are subject to continued recognition in full, as well as recognized liabilities associated with those transferred assets.

Transferred financial assets subject to continued recognition in full

	31.12.17		31.12.16	
GBP million	Carrying value of transferred assets	Carrying value of associated liabilities recognized on balance sheet	Carrying value of transferred assets	Carrying value of associated liabilities recognized on balance sheet
Trading portfolio assets pledged or transferred which may be sold or repledged by counterparties				
relating to securities lending and repurchase agreements in exchange for cash received	*366*	*363*	*885*	*873*
relating to securities lending agreements in exchange for securities received	*1,700*	*–*	*2,150*	*–*
relating to other financial asset transfers	*–*	*–*	*4*	*–*
Total financial assets transferred	2,067	363	3,038	873

Transactions whereby financial assets are transferred, but continue to be recognized in their entirety on the Company's balance sheet include securities lending and repurchase agreements as well as other financial asset transfers. Repurchase agreements and securities lending agreements are discussed in Note 1a: Basis of accounting. Repurchase and securities lending arrangements are, for the most part, conducted under standard market agreements, and are undertaken with counterparties subject to the Company's normal credit risk control processes. As of 31 December 2017, approximately 18% (2016: 29%) of

the transferred financial assets were trading portfolio assets transferred in exchange for cash, in which case the associated recognized liability represents the amount to be repaid to counterparties. For securities lending and repurchase agreements, a haircut between 0% and 15% is generally applied to the collateral, which results in associated liabilities having a carrying value below the carrying value of the transferred assets. The counterparties to the associated liabilities presented in the table above have full recourse to the Company. In securities lending arrangements entered into in exchange for the receipt of other securities as collateral, neither the securities received nor the obligation to return them are recognized on the Company's balance sheet as the risks and rewards of ownership are not transferred to the Company. In cases where such financial assets received are subsequently sold or repledged in another transaction, this is not considered to be a transfer of financial assets.

Other financial asset transfers primarily include securities transferred to collateralize derivative transactions, for which the carrying value of associated liabilities is not provided in the table above because those replacement values are managed on a portfolio basis across counterparties and product types, and therefore is not a direct relationship between the specific collateral pledged and the associated liability.

c) Off balance sheet assets received

The table below presents assets received that can be sold or repledged, that are not recognized on the balance sheet, but that are held as collateral, including amounts that have been sold or repledged.

Off balance sheet assets received

GBP million	31.12.17	31.12.16
Fair value of assets received which can be sold or repledged	30,441	29,111
received as collateral under reverse repurchase, securities borrowing and lending arrangement, derivative transactions and other transactions[1]	*30,441*	*28,915*
received in unsecured borrowings	*–*	*196*
Thereof sold or repledged:	25,725	25,445
In connection with financing activities	16,637	14,382
To satisfy commitments under short sale transactions	4,931	5,558
In connection with derivative transactions[1]	4,157	5,505

1 Includes securities received as initial margin from its clients that the Company is required to remit to central clearing counterparties, brokers and deposit banks through its exchange-traded derivative (ETD) clearing and execution services.

Note 26 Offsetting financial assets and liabilities

The Company enters into netting agreements with counterparties to manage the credit risks associated primarily with repurchase and reverse repurchase transactions, securities borrowing and lending and over-the-counter and exchange-traded derivatives. These netting agreements and similar arrangements generally enable the counterparties to offset liabilities against available assets received in the ordinary course of business and / or in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The right to offset is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure.

From a balance sheet presentation perspective, the criteria for offsetting financial assets and financial liabilities are highly restrictive. The Company offsets financial assets and financial liabilities on its balance sheet only when it has a currently enforceable legal right to offset the respective recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. In assessing the criteria for a relevant set of facts and circumstances, emphasis is placed on the effectiveness of the operational mechanics of net or simultaneous settlements in eliminating all credit and liquidity exposure between counterparties at the time of settlement. These criteria preclude offsetting on the balance sheet for substantial amounts of the Company's financial assets and liabilities, even if these amounts may be subject to enforceable netting arrangements. For derivative contracts, balance sheet offsetting is generally only permitted in circumstances in which a market settlement mechanism (e.g., an exchange or clearing house) exists which effectively accomplishes net settlement through a daily cash margining process. Bilateral OTC derivatives and exchange traded derivatives that are not margined on a daily basis are commonly precluded from offsetting on the balance sheet unless a mechanism exists to provide for net settlement of the cash flows arising from these contracts. For repurchase arrangements and securities financings, balance sheet offsetting may be permitted only to the extent that financial assets and liabilities with a counterparty have the same maturity date and are settled through a clearing process by which intra-day credit and liquidity exposures are substantially eliminated. Thus, repurchase and securities financing arrangements that are not cleared through a formal mechanism, such as a clearing house or exchange, are generally not offset on the balance sheet.

The Company engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangement. Therefore the net amounts presented in the tables on the following pages do not purport to represent the Company's actual credit exposure.

a) Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

The table below provides a summary of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements, as well as financial collateral received to mitigate credit exposures for these financial assets. The gross financial assets of the Company that are subject to offsetting, enforceable netting arrangements and similar agreements are reconciled to the net amounts presented within the associated balance sheet line, after giving effect to financial liabilities with the same counterparties that have been offset on the balance sheet and other financial assets not subject to an enforceable netting arrangement or similar agreement. Further, related amounts for financial liabilities and collateral received that are not offset on the balance sheet are shown to arrive at financial assets after consideration of netting potential.

Offsetting financial assets

	31.12.17							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
GBP million	Gross assets before balance sheet netting	Balance sheet netting with gross liabilities[2]	Assets recognized on the balance sheet, net	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets not subject to enforceable netting arrangements or similar agreements[4]	Total assets recognized on the balance sheet
Cash collateral on securities borrowed	4,257	–	4,257	(15)	(4,241)	–	54	4,310
Reverse repurchase agreements	12,754	(8,109)	4,645	(1,852)	(2,792)	–	211	4,856
Positive replacement values	11,761	(442)	11,319	(8,507)	(1,830)	983	434	11,754
Cash collateral receivables on derivative instruments[1]	5,320	–	5,320	(1,848)	(1,521)	1,950	190	5,509
Financial assets designated at fair value	20	–	20	–	(3)	17	2,695	2,715
Total assets	34,112	(8,551)	25,561	(12,223)	(10,387)	2,950	3,583	29,144

	31.12.16							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
GBP million	Gross assets before balance sheet netting	Balance sheet netting with gross liabilities[2]	Assets recognized on the balance sheet, net	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets not subject to enforceable netting arrangements or similar agreements[4]	Total assets recognized on the balance sheet
Cash collateral on securities borrowed[5]	2,758	–	2,758	(14)	(2,744)	–	41	2,799
Reverse repurchase agreements	8,039	(5,492)	2,546	(466)	(2,080)	–	91	2,638
Positive replacement values	17,413	(679)	16,734	(12,794)	(2,952)	988	716	17,451
Cash collateral receivables on derivative instruments[1]	5,652	–	5,652	(2,199)	(941)	2,512	837	6,490
Financial assets designated at fair value	343	–	343	–	(292)	51	3,588	3,931
Total assets	34,205	(6,171)	28,034	(15,473)	(9,009)	3,551	5,275	33,308

1 The net amount of Cash collateral receivables on derivative instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32, interest rate swaps (IRS) with the London Clearing House (LCH) which are legally settled on a daily basis and ETD which are economically settled on a daily basis. 2 The logic of the table results in amounts presented in the "Netting with gross liabilities" column corresponding directly to the amounts presented in the "Netting with gross assets" column in the liabilities table presented on the following page. 3 For the purpose of this disclosure, the amounts of financial instruments and cash collateral presented have been capped by the relevant netting agreement so as not to exceed the net amount of financial assets presented on the balance sheet; i.e., over-collateralization, where it exists, is not reflected in the table. 4 Includes assets not subject to enforceable netting arrangements and other out-of-scope items.

b) Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

Offsetting financial liabilities

	31.12.17							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
GBP million	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets[2]	Liabilities recognized on the balance sheet, net	Financial assets	Collateral pledged	Liabilities after consideration of netting potential[4]	Liabilities not subject to enforceable netting arrangements or similar agreements	Total liabilities recognized on the balance sheet
Cash collateral on securities lent	105	–	105	(15)	(89)	–	(0)	105
Repurchase agreements	12,234	(8,109)	4,125	(1,852)	(2,273)	–	173	4,298
Negative replacement values	12,061	(442)	11,619	(8,507)	(2,188)	925	413	12,032
Cash collateral payables on derivative instruments[1]	5,433	–	5,433	(1,644)	(1,818)	1,972	113	5,547
Financial liabilities designated at fair value	181	–	181	–	(29)	152	79	260
Total liabilities	30,014	(8,551)	21,463	(12,017)	(6,397)	3,049	779	22,242

	31.12.16							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
GBP million	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets[2]	**Liabilities recognized on the balance sheet, net**	Financial assets	Collateral pledged	Liabilities after consideration of netting potential[4]	**Liabilities not subject to enforceable netting arrangements or similar agreements**	**Total liabilities recognized on the balance sheet**
Cash collateral on securities lent	228	–	**228**	(14)	(214)	–	**–**	**228**
Repurchase agreements	8,962	(5,492)	**3,470**	(466)	(3,004)	–	**2**	**3,472**
Negative replacement values	17,544	(679)	**16,865**	(12,794)	(2,547)	1,523	**1,040**	**17,904**
Cash collateral payables on derivative instruments	5,298	–	**5,298**	(2,199)	(918)	2,180	**855**	**6,153**
Financial liabilities designated at fair value	664	–	**664**	–	(407)	257	**59**	**724**
Total liabilities	32,696	(6,171)	**26,525**	(15,474)	(7,091)	3,960	**1,956**	**28,481**

1 The net amount of Cash collateral receivables on derivative instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32, interest rate swaps (IRS) with the London Clearing House (LCH) which are legally settled on a daily basis and ETD which are economically settled on a daily basis. 2 The logic of the table results in amounts presented in the "Netting with gross assets" column corresponding directly to the amounts presented in the "Netting with gross liabilities" column in the assets table presented on the previous page. 3 For the purpose of this disclosure, the amounts of financial instruments and cash collateral presented have been capped by the relevant netting agreement so as not to exceed the net amount of financial liabilities presented on the balance sheet; i.e., over-collateralization, where it exists, is not reflected in the table. 4 Includes liabilities not subject to enforceable netting arrangements and other out-of-scope items.

Note 27 Financial assets and liabilities – additional information

a) Measurement categories of financial assets and liabilities

The table below provides information about the carrying amounts of individual classes of financial instruments within the measurement categories of financial assets and liabilities as defined in IAS 39 *Financial Instruments: Recognition and Measurement*. Only those assets and liabilities which are financial instruments as defined in IAS 32 *Financial Instruments: Presentation* are included in the table below, which causes certain balances to differ from those presented on the balance sheet.

Refer to Note 24: Fair value measurement for more information on how fair value of financial instruments is determined.

Measurement categories of financial assets and liabilities

GBP million	31.12.17	31.12.16
Financial assets		
Fair value through profit or loss, held for trading		
Trading portfolio assets	4,122	4,737
Positive replacement values	11,754	17,451
Total	15,876	22,188
Fair value through profit or loss		
Financial assets designated at fair value	2,715	3,931
Financial assets at amortized cost		
Cash and balances with central banks	109	3
Due from banks	1,189	1,054
Cash collateral on securities borrowed	4,310	2,799
Reverse repurchase agreements	4,856	2,638
Cash collateral receivables on derivative instruments	5,509	6,490
Loans and advances to customers	722	1,054
Other amounts due from group undertakings	116	222
Other assets	158	109
Total	16,970	14,369
Available-for-sale		
Financial investments available-for-sale	2	123
Total financial assets	35,562	40,610
Financial liabilities		
Fair value through profit or loss, held for trading		
Trading portfolio liabilities	4,931	5,819
Negative replacement values	12,032	17,904
Total	16,963	23,724
Fair value through profit or loss, other		
Financial liabilities designated at fair value	260	724
Financial liabilities at amortized cost		
Due to banks	4,777	2,715
Cash collateral on securities lent	105	228
Repurchase agreements	4,298	3,472
Cash collateral payables on derivative instruments	5,548	6,153
Due to customers	359	385
Other amounts owed to group undertakings	101	116
Other liabilities	291	88
Total	15,478	13,157
Total financial liabilities	32,700	37,604

b) Maturity analysis of financial liabilities

The contractual maturities of non-derivative and non-trading financial liabilities as of 31 December 2017 are based on the earliest date on which UBS Limited could be contractually required to pay. The total amounts that contractually mature in each time-band are also shown for 31 December 2016. Derivative positions and trading liabilities, predominantly made up of short sale transactions, are assigned to the column 'Due within 1 month', as this provides a conservative reflection of the nature of these trading activities. The contractual maturities may extend over significantly longer periods.

Only financial instruments are required to be disclosed in the maturity analysis therefore certain items including deferred income, deferred tax liabilities and provisions are excluded from the table below.

Maturity analysis of financial liabilities

	31.12.17						
GBP million	On demand	Due within 1 month	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Liabilities							
Due to banks	765	510	754	1,622	450	694	4,795
Cash collateral on securities lent	31	74	–	–	–	–	105
Repurchase agreements	859	1,454	519	1,283	183	–	4,298
Trading portfolio liabilities	4,929	–	–	–	–	–	4,929
Negative replacement values	12,032	–	–	–	–	–	12,032
Cash collateral payable on derivative instruments	5,548	–	–	–	–	–	5,548
Financial liabilities designated at fair value	134	–	–	55	–	185	374
Due to customers	201	158	–	–	–	–	359
Other amounts owed to group undertakings	–	101	–	–	–	–	101
Other liabilities	64	227	–	–	–	–	291
Total	24,562	2,524	1,272	2,960	633	880	32,830
Financial liabilities not recognized on the balance sheet							
Commitments							
Loan commitments	1,454	–	–	–	–	–	1,454
Guarantees	4	–	–	–	–	–	4
Forward starting transactions	–	–	–	–	–	–	–
Reverse repurchase agreements	–	3,769	–	–	–	–	3,769
Securities borrowing agreements	–	–	–	–	–	–	–
Total	1,458	3,769	–	–	–	–	5,226

	31.12.16						
GBP million	On demand	Due within 1 month	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Liabilities							
Due to banks	720	621	400	73	141	780	2,735
Cash collateral on securities lent	46	–	182	–	–	–	228
Repurchase agreements	529	892	309	1,701	–	41	3,472
Trading portfolio liabilities	5,782	–	–	–	–	–	5,782
Negative replacement values	17,904	–	–	–	–	–	17,904
Cash collateral payable on derivative instruments	6,153	–	–	–	–	–	6,153
Financial liabilities designated at fair value	78	20	–	261	286	96	740
Due to customers	221	164	–	–	–	–	385
Other amounts owed to group undertakings	–	116	–	–	–	–	116
Other liabilities	107	91	–	–	–	–	199
Total	**31,540**	**1,905**	**891**	**2,035**	**427**	**916**	**37,715**
Financial liabilities not recognized on the balance sheet							
Commitments							
Loan commitments	2,021	–	–	–	–	–	2,021
Underwriting	–	–	–	–	–	–	–
Guarantees	5	–	–	–	–	–	5
Forward starting transactions							
Reverse repurchase agreements	–	3,146	–	–	–	–	3,146
Securities borrowing agreements	–	7	–	–	–	–	7
Total	**2,026**	**3,153**	**–**	**–**	**–**	**–**	**5,179**

The financial assets recorded on the balance sheet are expected to settle or mature within the next 12 months with the exception of the following amounts which are due after greater than 1 year; Financial investments £2 million (2016: £54 million), Financial assets at fair value £1,072 million (2016: £1,438 million) and Loans £81 million (2016: £218 million), Reverse Repurchase Agreements £178 million (2016: nil)

Note 28 Retirement benefit plan

Defined contribution plan

A defined contribution plan is a pension plan under which the Company pays fixed contributions; there is no legal or constructive obligation to pay further contributions. The assets of the plan are held separately from those of the Company in a fund under the control of trustees. The total expense charged to income of £1,069 thousand (2016: £68 thousand) represents contributions payable to these plans by the Company at rates specified in the rules of the plan.

Defined benefit plan

Defined benefit plans relate to benefits for Italian employees as required under Italian law, Trattamento di Fine Rapport ("TFR"). TFR requires one month salary for each year of service to be paid to an employee when they leave employment. The present value of the obligation recorded in the balance sheet is £1.2m as at 31 December 2017 (2016: £1.3m)

Note 29 Share capital

Regulated share capital

GBP million	31.12.17	31.12.16
Allotted, called up and fully paid[1]		
226,619,765 ordinary shares of £1 each	227	227

1 The Company removed the limit on its authorised share capital in accordance with the Companies Act 2006 with effect from 18 March 2011.

The primary objectives of the Company's capital management are to ensure that the Company has sufficient resources to support the Company's existing and planned business and in doing so complies with the PRA's capital requirements. The Company determines its capital requirements through a comprehensive planning approach that takes account of projected business activity and after performing stress and scenario testing in accordance with internal and PRA requirements. The mix of instruments comprising regulatory capital is periodically reviewed to ensure the efficient allocation of resources from a Company and broader group perspective.

The Company has been subject to the Capital Requirements Directive 2013/48/EC and calculates minimum capital requirements under the Capital Requirements Regulation 575/2013, the associated implementing and delegated acts and the supporting technical standards of the directive and the regulation and the relevant regulations of the PRA. These requirements set out the capital a firm has to hold to underpin the solvency requirements related to credit, market and operational risk. The Company has met its regulatory obligations throughout the year.

The regulatory capital of the Company comprises the following:

Basel III capital information UBS Limited (Unaudited)

GBP million, except where indicated	31.12.17	31.12.16
Tier 1 capital	2,764	2,756
of which: common equity tier 1 capital	*2,529*	*2,521*
Tier 2 capital	685	687
Total capital	3,449	3,442

The regulatory capital of UBS Limited is comprised of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital less any deductions specified under the Capital Requirements Regulation. Further details of the components of the regulatory capital of the Company and any relevant deductions made can be found in the UBS Limited Pillar 3 disclosures. Tier 1 capital includes a subordinated loan. The loan has no fixed maturity and will not be repayable at any time at the option of UBS AG and therefore is treated as equity and is classified as Additional Tier 1 capital for regulatory purposes. Movements in tier 1 capital include changes in accumulated reserves and capital deductions for deferred tax assets, prudential valuation, own credit and derivative valuation adjustments.

Note 30 Dividends

Dividends paid and proposed

GBP million	31.12.17	31.12.16
Declared and paid during the year:		
Dividends on ordinary shares:		
Interim dividend for 2016: 87.81 pence per share (2015: nil)	-	199
Interim dividend for 2017: 73.69 pence per share (2016: 199m)	167	-
Total dividend declared and paid during the year	167	199
Proposed for approval at the annual general meeting:	-	-
Dividends on ordinary shares:		
Final dividend for 2017: nil (2016: nil)	-	-

Note 31 Related party transactions

The Company has significant related party balances and transactions with UBS AG and its subsidiaries. The Company enters into these transactions in the ordinary course of business and on substantially the same terms as for comparable transactions with third-party counterparties. The Company applies a framework to manage these flows that is globally consistent across the UBS Group.

UBS AG Group has made, and continues to make, available a number of its employees to be engaged either on a full-time or part-time basis in the performance of certain functions or operations in connection with the Company's business. UBS AG also provides access to infrastructure and services to the Company. During the year, the majority of these services were transitioned to UBS Business Solutions AG, the Service Company which UBS Group has implemented. Service charges paid to UBS AG Group and to UBS Business Solutions AG are reflected in administrative expenses.

The related party balances and transactions included under various captions within the Balance Sheet and Income Statement are as follows:

Balance sheet

	31.12.17		
GBP million	UBS AG	Other group companies	Total
Assets			
Due from banks	945	78	1,024
Cash collateral on securities borrowed	4,007	29	4,036
Trading portfolio assets	10	8	18
Reverse repurchase agreements	1,779	–	1,779
Positive replacement values	5,075	642	5,717
Cash collateral receivable on derivative instruments	1,984	956	2,941
Financial assets at fair value	72	–	72
Loans and advances to customers	–	16	16
Other amounts due from group undertakings	114	2	116
Other assets	8	12	20
Total	13,994	1,744	15,738
Liabilities			
Due to banks	4,509	33	4,542
Repurchase agreements	3,937	–	3,937
Trading portfolio liabilities	7	104	111
Negative replacement values	5,649	826	6,475
Cash collateral payable on derivative instruments	2,413	498	2,910
Financial liabilities at fair value	21	–	21
Due to customers	–	119	119
Other amounts owed to group undertakings	96	5	101
Other liabilities	–	16	16
Total	16,631	1,601	18,232

Balance sheet (continued)

	31.12.16		
GBP million	UBS AG	Other group companies	Total
Assets			
Due from banks	463	20	483
Cash collateral on securities borrowed	2,540	39	2,579
Trading portfolio assets	12	16	28
Reverse repurchase agreements	408	–	408
Positive replacement values	8,435	685	9,120
Cash collateral receivable on derivative instruments	1,245	1,377	2,622
Financial assets at fair value	107	–	107
Loans and advances to customers	–	229	229
Other amounts due from group undertakings	222	–	222
Other assets	6	43	50
Total	**13,438**	**2,409**	**15,847**
Liabilities			
Due to banks	2,566	20	2,586
Cash collateral for securities lent	2	–	2
Repurchase agreements	3,367	–	3,367
Trading portfolio liabilities	23	–	23
Negative replacement values	7,700	616	8,316
Cash collateral payable on derivative instruments	2,317	726	3,043
Financial liabilities at fair value	494	–	494
Due to customers	–	153	153
Other amounts owed to group undertakings	106	10	116
Other liabilities	10	–	10
Total	**16,586**	**1,525**	**18,111**

Income statement

	31.12.17		
GBP million	UBS AG	Other group companies	Total
Interest and similar income	178	8	186
Interest and similar expense	(205)	(10)	(215)
Net fee and commission expense	109	(67)	42
Net trading income[1]	235	96	331
Other operating income	(4)	3	(1)
Other administrative expenses	(537)	(14)	(551)
Total	(225)	17	(208)

	31.12.2016		
GBP million	UBS AG	Other group companies	Total
Interest and similar income	117	9	127
Interest and similar expense	(145)	(12)	(157)
Net fee and commission expense	69	(83)	(14)
Net trading income[1]	(42)	–	(42)
Other operating income	26	25	51
Other administrative expenses	(527)	(24)	(551)
Total	**(502)**	**(85)**	**(587)**

1 Net trading income does not include related party derivative trading income as this cannot be separated from third party balances.

UBS AG has not granted any new loans or had any outstanding loans to the UBS Limited Board of Directors during the year.

Note 32 Interests in subsidiaries and other entities

a) Interests in subsidiaries, associates and joint ventures

As at December 2017 and December 2016, the Company did not hold any subsidiaries nor did it have any investments in associates or joint ventures.

b) Interests in unconsolidated structured entities

The table below presents the Company's interests in and maximum exposure to loss from unconsolidated structured entities as at 31 December 2017. In addition, the total assets held by the structured entity in which the Company had an interest as of 31 December 2017 are provided, except for investment funds sponsored by third parties, for which the carrying value of the Company's interest has been disclosed.

The maximum exposure to loss disclosed in the table below does not reflect the Company's risk management activities, including effects from financial instruments that the Company may utilize to hedge economically the risks inherent in the unconsolidated structured entity or the risk reducing effects of collateral or other credit enhancements.

During the year the Company did not provide support, financially or otherwise, to an unconsolidated structured entity, nor has UBS Limited an intention to do so in the future. The Company did not sponsor the creation of any structured entities during 2017 (2016: nil).

Interest in unconsolidated structured entities

	31.12.2017				
GBP million	Securitization vehicles	Client vehicles	Investment funds	Total	Maximum exposure to loss[4]
Trading portfolio assets	–	11	188	199	199
Positive replacement values	13	–	–	13	13
Total assets	13	11	188	212	212
Assets held by the unconsolidated structured entities in which the Company has an interest	746[1]	4,379[2]	188[3]		

	31.12.2016				
GBP million	Securitization vehicles	Client vehicles	Investment funds	Total	Maximum exposure to loss
Trading portfolio assets	–	–	66	66	66
Positive replacement values	15	–	–	15	15
Total assets	**15**	**–**	**66**	**81**	
Negative Replacement values	1	–	–	1	1
Total liabilities	**1**	**–**	**–**	**1**	
Assets held by the unconsolidated structured entities in which UBS had an interest	970[1]	639[2]	66[3]		

1 Represents principal amount outstanding. 2 Represents the market value of total assets. 3 Represents the carrying value of the Company's interest in the investment funds not sponsored by the Company. 4 For purposes of this disclosure, maximum exposure to loss amounts do not consider the risk reducing effects of collateral or other credit enhancements.

Note 33: Risk, treasury and capital management

Risk management and control

Risk categories

The key financial and other significant risks faced by the Company are described below.

Credit risk is the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations. This includes settlement risk and loan underwriting risk. Settlement risk is the risk of loss resulting from transactions involving exchange of value where we must fulfill our obligation to deliver without first being able to determine with certainty that we will receive the counter value. Loan underwriting risk is the risk of loss arising during the holding period of financing transactions which are intended for further distribution.

Market risk is the risk of loss resulting from changes in general market risk factors (e.g., interest rates, equity index levels, exchange rates, commodity prices and general credit spreads) and changes in prices of debt and equity instruments which result from factors and events specific to individual companies or entities. Market risk includes issuer risk and investment risk. Issuer risk is the risk of loss from changes in fair value resulting from credit-related events affecting an issuer or group of related issuers, including sovereigns, to which we are exposed through tradable securities or derivatives referencing the issuer. Investment risk refers to the issuer risk associated with positions held as financial investments.

Country risk is the risk of losses resulting from country-specific events. It includes transfer risk, whereby a country’s authorities prevent or restrict the payment of an obligation, as well as systemic risk events arising from country-specific political or macroeconomic developments.

Liquidity risk is the risk of being unable to generate sufficient funds from assets to meet payment obligations when they fall due, including in times of stress.

Funding risk is the risk of higher than expected funding costs due to higher than expected UBS credit spreads when existing funding positions mature and need to be rolled over, or replaced by other more expensive funding sources. If a shortage of available funding sources is expected in a stress event, funding risk also covers potential additional losses from forced asset sales.

Operational Risk is the risk resulting from inadequate or failed internal processes, people and systems, or from external causes (deliberate, accidental or natural). Events may be direct financial losses or indirect in the form of revenue forgone as a result of business suspension. They may also result in damage to our reputation and to our franchise, which have longer term financial consequences. Operational risk includes, among others, legal risk, conduct risk and compliance risk. Legal risk is the risk of (i) the financial risk resulting from the non-enforceability of a contract or the failure to assert non-contractual rights, or (ii) the financial or reputational risk resulting from UBS Limited being held liable for a contractual or legal claim, or otherwise being subject to a penalty or liability in a legal action, based on a contractual or other legal claim, violation of law, or regulation, or infringement of intellectual property rights, or failing to manage litigation or other actions appropriately or effectively.

Conduct risk is the risk that the conduct of the firm or its individuals unfairly impacts clients or counterparties, undermines the integrity of the financial system or impairs effective competition to the detriment of consumers.

Compliance risk refers to the financial or reputational risk incurred by UBS Limited by not adhering to the applicable laws, rules and regulations, local and international best practice (including ethical standards) and UBS Limited's own internal standards.

Risk governance

The Company falls within the broader risk governance framework of the UBS Group, which operates along three lines of defence. Business management, as the first line of defence, own their risk exposures and are required to maintain effective processes and systems to manage their risks, including robust and comprehensive internal controls and documented procedures. Business management must also have in place appropriate supervisory controls and review processes to highlight control weaknesses, inadequate processes and unexpected events. Control functions act as the second line of defence, providing independent oversight of primary and consequential risks. This includes setting risk limits and protecting against non-compliance with applicable laws and regulations. Group Internal Audit (GIA) forms the third line of defence, evaluating the overall effectiveness of governance, risk management and the control environment, including consideration of how the first and second lines of defence meet their objectives. The Board has established a Risk Committee of the Board. The Risk Committee is comprised only of Non-Executive Directors and is responsible for overseeing and supporting the Board in fulfilling its duty to supervise and set appropriate risk management and control principles. The Chief Risk Officer (CRO) is responsible for the implementation and enforcement of the risk governance framework for the Company, including review and approval of any policies deemed necessary to supplement the UBS Group risk governance framework. The Committee met five times in 2017 (2016: four times).

Risk appetite framework

The Company's risk appetite is defined at the aggregate level and by the types of risk that it is willing to accept or intends to avoid. It is established via a complementary set of qualitative and quantitative objectives.

Qualitative statements aim to ensure we maintain the desired risk culture. Quantitative risk appetite objectives are designed to enhance the Company's resilience against the impact of potential severe adverse economic or geopolitical events, and are subject to periodic review, including as part of the annual business planning process.

The Board has established quantitative risk appetite objectives for the Company covering capital, liquidity and funding, and these are reviewed and approved at least annually by the Board. These objectives aim to ensure that the Company maintains sufficient capital, liquidity and funding such that it can continue to meet regulatory requirements and operate as a going concern following severe adverse economic or geopolitical events. The framework is comprehensive in aggregating all material risks across the Company.

These objectives are complemented by operational risk appetite objectives, comprised of top-down financial thresholds which, if breached, require a senior management response to investigate the nature and underlying cause of the control failures and ensure that appropriate remediation is put in place.

The combination of the qualitative and quantitative risk appetite statements aims to protect the Company's business and reputation in both normal and stressed environments.

The status of the Company's risk appetite objectives is evaluated and reported to the Risk Committee each quarter. The Company's risk appetite may change over time and, as a consequence, portfolio limits and risk authorities are subject to periodic reviews and changes, in particular in the context of the annual business planning process. In addition, primary day to day management and oversight of the liquidity and funding situation of the Company is delegated to the Company's Treasurer. This includes measuring the liquidity and funding position of the Company and monitoring regulatory and internal limits and targets to ensure compliance at all times.

Risk measurement

A variety of methodologies and measurements are employed to quantify the risks of the Company's portfolios and potential risk concentrations. Risks that are not fully reflected within standard measures are subject to additional controls, which may include pre-approval of specific transactions and the application of specific restrictions.

Stress testing

Stress testing is used to estimate the loss that could result from extreme yet plausible macroeconomic and geopolitical stress events, enabling identification, better understanding and management of potential vulnerabilities and risk concentrations. The stress testing framework incorporates three pillars: (i) combined stress tests, (ii) a comprehensive range of portfolio- and risk-type-specific stress tests and (iii) reverse stress testing.

The combined stress test (CST) framework is scenario-based and aims to quantify overall entity-wide losses which could result from a number of potential global systemic events. The framework captures all material primary and consequential risks, as well as business risks. Portfolio specific stress tests, which are tailored to the risks of specific portfolios, may be subject to limits to explicitly control risk taking, or may be monitored without limits to identify vulnerabilities. Reverse stress testing starts from a defined stress outcome and works backwards to identify the economic or financial scenarios that could result in such an outcome. As such, reverse stress testing is intended to complement forward stress tests by assuming "what if" outcomes that extend beyond the range normally considered, and thereby potentially challenge assumptions regarding severity and plausibility.

The identification, measurement, testing, limitation and reporting of stress risks for the Company is subject to the same process and governance as applied more broadly for the UBS Group, with regular review by the Risk Committee. The Risk Committee may recommend new scenarios and changes to existing scenarios to address Company specific factors.

Portfolio and position limits

In addition to entity-wide risk appetite objectives, exposures are subject to entity-specific portfolio limits, which require Board approval, as well as other credit and market risk limits. The status of key risk limits is reported on a frequency appropriate for each individual metric, and utilization against portfolio limits is formally reported to the Risk Committee quarterly. The limits are reviewed at least annually by the Board or the appropriate authority and adjusted where necessary to be consistent with business plans and confirmed risk appetite.

Limit excesses are monitored by Risk Control and escalated for action where appropriate to Risk Officers.

Further information on the measurement, monitoring and management of credit risk and market risk is provided in the sections below.

Risk concentrations

A risk concentration exists where (i) a position is affected by changes in a group of correlated factors, or a group of positions are affected by changes in the same risk factor or a group of correlated factors, and (ii) the exposure could, in the event of large but plausible adverse developments, result in significant losses. The categories in which risk concentrations may occur include counterparties, industries, legal entities, countries, products and businesses.

The identification of risk concentrations requires judgment, as potential future developments cannot be accurately predicted and may vary from period to period. In determining whether the Company has a risk concentration, a number of elements are considered, both individually and collectively.

These elements include the shared characteristics of the positions and our counterparties, the size of the position or group of positions, the sensitivity of the position or group of positions to changes in risk factors and the volatility and correlations of those factors. Also important in the assessment is the liquidity of the markets where the positions are traded, and the availability and effectiveness of hedges or other potential risk-mitigating factors. The value of a hedge instrument may not always move in line with the position being hedged, and this mismatch is referred to as basis risk.

Risk concentrations are subject to increased monitoring by Risk Control and are assessed to determine whether they should be reduced or mitigated depending on the available means to do so. Risk concentrations are monitored and reported for all counterparties, including UBS affiliate companies in general, and UBS AG specifically, and across various dimensions, including single name /counterparty, industry /sector, country and region.

Credit risk

Main sources of credit risk

Credit risk arises primarily from traded products, including over-the-counter (OTC) derivative transactions and exchange-traded derivatives, as well as securities financing transactions such as repurchase agreements (repos and reverse repos), securities borrowing and lending transactions. Credit risk from banking products (such as loans, loan commitments and guarantees) relates primarily to unfunded loan commitments which are sub-participated to the Company's parent, UBS AG, or third parties, and amounts due from banks.

Overview of measurement, monitoring and management techniques

Credit risk framework

The Company applies the same framework for measuring, monitoring and managing credit risk as the UBS Group. Credit risk arising from transactions with individual counterparties is measured according to internal estimates of probability of default, exposure at default and loss given default. Limits are established for individual counterparties and groups of counterparties covering banking and traded products as well as settlement amounts. Limits apply not only to the current outstanding amount, but also to contingent commitments and the potential future exposure of traded products. The Company also establishes portfolio level limits at these levels. For the Investment Bank, the monitoring, measurement and limit framework distinguishes between exposures intended to be held to maturity (take-and-hold exposures) and those which are intended to be held for a short term, pending distribution or risk transfer (temporary exposures). Within this framework, credit limits for the Company are approved in accordance with delegated credit authority, giving due consideration to the Company’s risk capacity, risk appetite and large exposure requirements. Limits are monitored, and exposures relative to key limits are formally reported to the Risk Committee on a quarterly basis. Credit risk concentrations can arise if clients are engaged in similar activities, are located in the same geographical region or have comparable economic characteristics, for example if their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. To avoid credit risk concentrations, the Company may, where appropriate, establish limits and/or operational controls to constrain risk concentrations at portfolio and sub-portfolio levels with regard to sector exposure, country risk and specific product exposures.

Credit risk models

Models are used to estimate future credit losses that may be implicit in our current portfolio.

Exposures to individual counterparties are measured based on three generally accepted parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). For a given credit facility, the product of these three parameters results in the 12 months’ expected loss. These parameters are the basis for the majority of our internal measures of credit risk. We also use models to derive the portfolio credit risk measures of expected loss, statistical loss and stress loss.

Credit risk mitigation

Credit risk is actively managed by taking collateral against exposures, through the use of netting agreements, and through the utilization of credit hedging.

Securities financing transactions are secured against the pledge of eligible market securities which primarily include transferable securities (such as bonds and equities), which are liquid and actively traded. Haircuts are applied to cover the possible change in market value of the collateral over a given close-out period.

OTC derivatives trading is conducted through central counterparties (CCP) where practicable. Where CCP are not used, we have clearly defined processes for entering into netting and collateral arrangements, including the requirement to have a legal opinion on the enforceability of contracts in relevant jurisdictions in the case of insolvency. Trading is generally conducted under bilateral International Swaps and Derivatives Association (ISDA) or ISDA-equivalent master netting agreements, which allow for the close-out and netting of all transactions in the event of default. For certain major market participant counterparties, we may in addition use two-way collateral agreements under which either party can be required to provide collateral in the form of cash or marketable securities, typically limited to well-rated government debt, when the exposure exceeds specified levels.

Single-name credit default swaps CDS, credit index CDS, bespoke protection, and other instruments are used to actively manage credit risk in the Investment Bank. This is aimed at reducing concentrations of risk from specific counterparties, sectors or portfolios.

Strict guidelines are applied for taking credit hedges into account for credit risk mitigation purposes. For example, when monitoring exposures against limits, the Company does not usually recognize credit risk mitigants such as proxy hedges (credit protection on a correlated but different name) or credit index CDS. Buying credit protection also creates credit exposure against the protection provider. The Company monitors exposures to credit protection providers and the effectiveness of credit hedges as part of the overall credit exposures to the relevant counterparties. In addition, the Company identifies and monitors positions where it believes there is significant exposure and correlation between the counterparty and the hedge provider (so-called wrong-way risk). The policy is to discourage such activity, and in any event or as market correlations may change, not to recognize hedge benefits subject to wrong-way risk within counterparty limits and credit exposure-related calculations.

The Company also utilizes sub-participation arrangements to transfer the risk of funded loans to its parent or third parties. Collateral taken is generally in the form of cash or marketable securities, is subject to haircuts and monitored for concentration risks. The Company has a concentration of exposure against its parent and its affiliates. This exposure is largely collateralized, with strict terms as to the quality of collateral that can be pledged. The Company has issued Letters of Credit worth £4 million (2016: £5 million) which are also covered by the guarantee.

Maximum exposure to credit risk

The table on the next page represents the Company's maximum exposure to credit risk by class of financial instrument and the respective collateral and other credit enhancements mitigating credit risk for these classes of financial instruments. The maximum exposure to credit risk includes the carrying amounts of financial instruments recognized on the balance sheet subject to credit risk and the notional amounts for off-balance sheet arrangements.

Collateral is presented at fair value and capped at the maximum exposure to credit risk for which it serves as security.

Maximum exposure to credit risk

	31.12.17					
		Collateral			Credit enhancements	
GBP millions	Maximum exposure to credit risk	Cash collateral received	Collateralized by securities	Other collateral	Netting	Guarantees
Financial assets measured at amortized cost on the balance sheet						
Balances with central banks	109	–	–	–	–	–
Due from banks[1]	1,189	–	–	–	–	–
Loans and advances to customers	722	–	–	98	–	–
Cash collateral on securities borrowed	4,310	–	4,310	–	–	–
Reverse repurchase agreements[2]	4,856	–	4,856	–	–	–
Cash collateral receivables on derivative instruments	5,509	1,521	–	–	1,848	–
Other amounts due from group undertakings	116	–	–	–	–	–
Other assets	158	–	–	–	–	–
Total financial assets measured at amortized cost	16,970	1,521	9,166	98	1,848	–
Financial assets measured at fair value on the balance sheet						
Positive replacement values	11,754	1,761	69	–	8,507	–
Trading portfolio assets- debt instruments	1,539	–	–	–	–	–
Financial assets designated at fair value- debt instruments	2,715	–	16	–	–	–
Financial investments available-for-sale- debt instruments	–	–	–	–	–	–
Total financial assets measured at fair value	16,008	1,761	85	–	8,507	–
Total maximum exposure to credit risk reflected on the balance sheet	32,977	3,282	9,252	98	10,355	–
Guarantees	4	–	–	4	–	–
Loan commitments	1,454	–	–	434	–	1,020
Forward starting transactions, reverse repurchase and securities borrowing agreements	3,769	–	3,769	–	–	–
Total maximum exposure to credit risk not reflected on the balance sheet	5,226	–	3,769	438	–	1,020
Total at the year-end	38,204	3,282	13,020	536	10,355	1,020

	31.12.16					
		Collateral			Credit enhancements	
GBP millions	Maximum exposure to credit risk	Cash collateral received	Collateralized by securities	Other collateral	Netting	Guarantees
Financial assets measured at amortized cost on the balance sheet						
Balances with central banks	3	–	–	–	–	–
Due from banks[1]	1,054	–	–	–	–	–
Loans and advances to customers	1,054	–	–	98	–	–
Cash collateral on securities borrowed	2,799	–	2,799	–	–	–
Reverse repurchase agreements[2]	2,638	–	2,638	–	–	–
Cash collateral receivables on derivative instruments	6,490	941	–	–	2,199	–
Other amounts owed to group undertakings	222	–	–	–	–	–
Other assets	114	–	–	–	–	–
Total financial assets measured at amortized cost	14,373	941	5,437	98	2,199	–
Financial assets measured at fair value on the balance sheet						
Positive replacement values	17,451	2,598	505	–	12,793	–
Trading portfolio assets- debt instruments	1,866	–	–	57	–	–
Financial assets designated at fair value- debt instruments	3,931	–	475	–	–	–
Financial investments available-for-sale- debt instruments	121	–	–	–	–	–
Total financial assets measured at fair value	23,370	2,598	980	57	12,793	–
Total maximum exposure to credit risk reflected on the balance sheet	37,743	3,539	6,417	155	14,992	–
Guarantees	5	–	–	5	–	–
Loan commitments	2,021	–	–	574	–	1,447
Forward starting transactions, reverse repurchase and securities borrowing agreements	3,153	–	3,153	–	–	–
Total maximum exposure to credit risk not reflected on the balance sheet	5,179	–	3,153	579	–	1,447
Total at the year-end	42,922	3,539	9,570	734	14,992	1,447

1 Due from banks includes £375 million (2016: £157 million) of balances held with third-party banks on behalf of clients. The credit risk associated with these balances may be borne by the clients.
2 In addition the Company holds £2,371 million (2016: £4,363 million) of securities to collateralize the exposure to UBS AG.

Credit risk exposures arising from traded products are predominantly investment grade and are concentrated with clearing houses and financial services counterparties, including banks. Banking products credit exposures are relatively well diversified across sectors. As of 31 December 2017 there were no financial assets past due or impaired. (2016: £28m). There are no individually impaired financial assets (2016: nil).

Financial assets subject to credit risk by internal UBS rating scale

GBP million	31.12.17						
Rating category	0 - 1	2 - 3	4 - 5	6 - 8	9 - 13	Defaulted	Total
Balances with central banks	109	–	–	–	–	–	109
Due from banks	9	1,120	55	4	–	–	1,189
Loans and advances to customers	–	220	395	55	52	–	722
Cash collateral on securities borrowed	1	4,050	58	202	–	–	4,310
Reverse repurchase agreements	198	3,613	1,045	–	–	–	4,856
Cash collateral on receivables on derivative instruments	354	3,803	1,230	73	50	–	5,509
Other amounts due from group undertakings	–	116	–	–	–	–	116
Accrued income and other Assets	–	158	–	–	–	–	158
Financial instruments recognized at amortized cost on the balance sheet	**671**	**13,079**	**2,783**	**334**	**102**	**–**	**16,970**
Positive replacement values	332	9,208	2,084	72	57	–	11,754
Trading portfolio assets- debt instruments	89	729	304	169	248	–	1,539
Financial assets designated at fair value	1,118	1,568	29	–	–	–	2,715
Financial instruments recognized at fair value on the balance sheet	**1,539**	**11,505**	**2,417**	**241**	**305**	**–**	**16,008**
Guarantees	–	4	–	–	–	–	4
Loan commitments	–	333	482	231	407	–	1,454
Forward starting reverse repos agreements	–	3,769	–	–	–	–	3,769
Commitments	**–**	**4,106**	**482**	**231**	**407**	**–**	**5,226**
Total at year-end	**2,210**	**28,690**	**5,682**	**806**	**815**	**–**	**38,204**

GBP million	31.12.16						
Rating category	0 - 1	2 - 3	4 - 5	6 - 8	9 - 13	Defaulted	Total
Balances with central banks	3	–	–	–	–	–	3
Due from banks	66	923	23	5	37	–	1,054
Loans and advances to customers	191	264	94	107	370	28	1,054
Cash collateral on securities borrowed	4	2,584	106	105	–	–	2,799
Reverse repurchase agreements	43	2,185	342	67	–	–	2,638
Cash collateral on receivables on derivative instruments	463	4,308	1,439	175	104	–	6,490
Other amounts due from group undertakings	–	222	–	–	–	–	222
Accrued income and other Assets	–	114	–	–	–	–	114
Financial instruments recognized at amortized cost on the balance sheet	**772**	**10,485**	**2,006**	**458**	**625**	**28**	**14,374**
Positive replacement values	1,341	14,025	1,773	260	52	–	17,451
Trading portfolio assets- debt instruments	264	814	575	112	102	–	1,866
Financial assets designated at fair value	1,249	2,189	228	239	26	–	3,931
Financial investments available-for-sale - debt instruments	121	–	–	–	–	–	121
Financial instruments recognized at fair value on the balance sheet	**2,974**	**17,028**	**2,577**	**611**	**179**	**–**	**23,369**
Guarantees	–	–	–	5	–	–	5
Loan commitments	–	808	547	287	379	–	2,021
Forward starting reverse repo agreements	–	3,146	–	–	–	–	3,146
Forward starting securities borrowing agreements	–	7	–	–	–	–	7
Commitments	**–**	**3,961**	**547**	**292**	**379**	**–**	**5,179**
Total at year-end	**3,746**	**31,475**	**5,129**	**1,361**	**1,183**	**28**	**42,922**

Market risk

Main sources of market risk

Market risk arising from the Company's trading activities relates primarily to equity and fixed income securities and derivatives trading for client facilitation purposes within the Investment Bank. Non-trading interest rate risk, which relates primarily to treasury activities, is not material.

Overview of measurement, monitoring and management techniques

The Company's exposure to market risk is managed under the same framework as applied for the UBS Group, with entity specific limits set by the Board for the two primary portfolio measures of market risk; liquidity adjusted stress (LAS) and value-at-risk (VaR). These portfolio measures are complemented by position limits on portfolios and risk factors. Limits are monitored and exposures relative to limits are reported at a frequency and to a level of detail commensurate with the extent and variability of the risk and the needs of senior management. Exposures against key limits are formally reported to the Risk Committee on a quarterly basis.

Value-at-risk (VaR) definition

VaR is a statistical measure of market risk, representing the market risk losses that could potentially be realized over a set time horizon at an established level of confidence. This assumes no change in the company's trading position over the relevant time period.

VaR limitations

Actual realized market risk losses may differ from those implied by our VaR for a variety of reasons.

– The VaR measure is calibrated to a specified level of confidence and may not indicate potential losses beyond this confidence level.
– The 1-day time horizon used may not fully capture the market risk of positions that cannot be closed out or hedged within the specified period;
– In certain cases, VaR calculations approximate the impact of changes in risk factors on the values of positions and portfolios. This may happen because the number of risk factors included in the VaR model is necessarily limited. For example, yield curve risk factors do not exist for all future dates;
– The effect of extreme market movements is subject to estimation errors, which may result from non-linear risk sensitivities, as well as the potential for actual volatility and correlation levels to differ from assumptions implicit in the VaR calculations;
– The use of a five-year window means that sudden increases in market volatility will tend not to increase VaR as quickly as the use of shorter historical observation periods, but the increase will impact our VaR for a longer period of time. Similarly, following a period of increased volatility, as markets stabilize, VaR predictions will remain more conservative for a period of time influenced by the length of the historical observation period.

No single measure may encompass the entirety of risks associated with a position or portfolio. Consequently, the Company employs a suite of various metrics with both overlapping and complementary characteristics in order to create a holistic framework which ensures material completeness of risk identification and measurement. As a statistical aggregate risk measure, VaR supplements the comprehensive stress testing framework.

Management VaR for the period

The table below shows minimum, maximum, average and period-end management VaR by business division and general market risk type. Average management VaR has remained at low levels, with period-end VaR lower than 2016.

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

					31.12.17				
GBP million					Equity	Interest rates	Credit spreads	Foreign exchange	Energy, metals and commodities
	Min.				0.01	0.43	0.81	0.06	0.00
		Max.			2.96	2.62	1.57	0.70	0.01
			Average		0.97	0.74	1.10	0.14	0.00
				Year end	0.37	0.51	1.04	0.12	0.00
Total management VaR	0.54	3.27	1.56	1.06	*Average (per business division and risk type)*				
Investment Bank	0.06	3.14	1.26	0.73	*0.97*	*0.62*	*0.68*	*0.05*	*0.00*
Corporate Center – Core Functions	0.77	1.21	0.92	0.80	*0.00*	*0.41*	*0.81*	*0.13*	*0.00*
Corporate Center – Non-core and Legacy Portfolio	0.00	0.15	0.01	0.00	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Diversification effect	-	-	(0.62)	(0.47)	*0.00*	*(0.29)*	*(0.39)*	*(0.04)*	*0.00*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time series, rendering invalid the simple summation of figures to arrive at the aggregate level.

					31.12.16				
GBP million					Equity	Interest rates	Credit spreads	Foreign exchange	Energy, metals and commodities
	Min.				0.32	0.44	0.83	0.06	0.00
		Max.			2.84	1.82	1.82	0.42	0.31
			Average		1.52	0.83	1.26	0.18	0.02
				Year end	0.44	0.85	1.16	0.19	0.00
Total management VaR	1.20	3.34	2.19	1.29	*Average (per business division and risk type)*				
Investment Bank	0.59	3.02	1.77	0.71	*1.52*	*0.70*	*0.44*	*0.03*	*0.02*
Corporate Center – Core Functions	0.04	1.66	0.57	1.17	*0.00*	*0.22*	*0.48*	*0.08*	*0.00*
Corporate Center – Non-core and Legacy Portfolio	0.00	1.54	0.73	0.00	*0.00*	*0.27*	*0.68*	*0.09*	*0.00*
Diversification effect	-	-	(0.88)	(0.60)	*0.00*	*(0.35)*	*(0.34)*	*(0.02)*	*0.00*

Country risk

Sources of country risk

Country risk includes all country-specific events that occur within a sovereign jurisdiction and may lead to an impairment of the Company's exposures. Country risk can take the form of sovereign risk, which refers to the ability and willingness of a government to honor its financial commitments, transfer risk, which would arise if an issuer or counterparty could not acquire foreign currencies following a moratorium of a central bank on foreign exchange transfers, or "other" country risk that may manifest itself through increased and multiple counterparty and issuer default risk (systemic risk) on the one hand, and by events that may affect the standing of a country (e.g., political stability, institutional and legal framework) on the other hand.

Country risk framework

The Company has a well-established risk control framework through which the risk profile of all countries where it has exposure is assessed.

Each country is attributed a sovereign rating, which expresses the probability of the sovereign state defaulting on its own financial obligations in foreign currency. Ratings are expressed by statistically derived default probabilities. Based on this internal analysis, the probability of a transfer event occurring is also defined and rules are established as to how the aspects of "other" country risk should be incorporated into the analysis of the counterparty rating of incorporated entities that are domiciled in the respective country.

Exposure to all countries must be commensurate with the credit ratings assigned to them, and it must not be disproportionate to the respective country risk profile. A country risk ceiling applies to all exposures to counterparties or issuers of securities and financial investments in the respective country. The extension of credit, transactions in traded products or positions in securities based on a country ceiling, may be limited even if the exposure to a counterparty is otherwise acceptable. For internal measurement and control of country risk, the financial impact of market disruptions arising prior to, during and following a country crisis is also considered. These may take the form of a severe deterioration in a country's debt, equity or other asset markets or of a sharp depreciation of the currency. Stress testing is used to assess the potential financial impact of a severe country and / or sovereign crisis. This involves the development of plausible stress scenarios for combined stress testing and the identification of countries that may potentially be subject to a crisis event, determining potential losses and making assumptions about recovery rates depending on the types of credit transactions involved and their economic importance to the affected countries.

Exposures to market risks are also subject to regular stress tests that cover major global scenarios, which are used for combined stress testing as well, whereby market shock factors are applied to equity indices, interest and currency rates in all relevant countries and the potential liquidity of the instruments is considered.

Operational risk

Sources of operational risk

Operational risk can arise as a result of the Company's past and current business activities.

Overview of measurement, monitoring and management techniques

The UBS Group has developed an operational risk framework, described further below, that supports the identification, assessment and remediation of material operational risks and their potential concentrations, in order to achieve an appropriate balance between risk and return. This same operational risk framework is applied to the Company, for which individual operational risk appetite objectives have been established. Should a single operational risk event breach the operational risk appetite, the Chief Executive and Compliance & Operational Risk Control (C&ORC) must investigate the issue and ensure that a remedial action plan is developed where appropriate. Should aggregate operational risk events breach the operational risk appetite, these will be escalated to the Risk Committee, who should determine whether a broader review of the control environment is required. Operational risk matters, including the risk profile and emerging risks, remediation and initiatives, and operational risk events are formally reported to the UK & IB EMEA Operating Committee and the Risk Committee on a quarterly basis. Operational risk is also captured in the Company's combined stress test framework.

The Company has been provided with an indemnity by its parent, UBS AG which indemnifies the Company against any operational risk loss that exceeds CHF 100,000 when the event giving rise to the loss occurred prior to the change in the Company's business model in May 2014 and which is claimed by the Company within the following 7 years, subject to an aggregate cap of £2 billion.

Operational risk framework

The business division Presidents and the Corporate Center function heads are ultimately accountable for the effectiveness of operational risk management and for the implementation of the operational risk framework. Management in all functions is responsible for ensuring an appropriate operational risk management environment, including the establishment and maintenance of robust internal controls, effective supervision and a strong risk culture.

C&ORC is responsible for providing an independent and objective view of the adequacy of operational risk management across the UBS Group, and is responsible for ensuring that our operational risks, including compliance and conduct risk, are understood, owned and managed to the firm's risk appetite. C&ORC is governed by the C&ORC Management Committee, which is chaired by the Global Head of C&ORC, who reports to the Group Chief Risk Officer and is a member of the Risk Executive Committee.

The operational risk framework establishes general requirements for managing and controlling operational risks, including compliance and conduct risk at UBS. It is built on the following pillars:

- Classifying inherent risks through the operational risk taxonomy
- Assessing the design and operating effectiveness of controls through the internal control assessment process
- Assessing residual risk through the risk assessment processes with remediation to address identified deficiencies that are outside accepted levels of residual risk
- Defining operational risk appetite, identifying levels of operational risk that exceed defined thresholds, and taking appropriate measures to bring residual risk back within the defined appetite

The operational risk taxonomy provides a clear and logical classification of our inherent operational risks, across all divisions. All functions within our firm are required to assess internal controls periodically whereby they evaluate and evidence the design and operating effectiveness of their key controls. The UBS risk assessment approach covers all business activities and internal as well as external identified or known factors posing a threat to UBS Group. Aggregated with any identified or known weaknesses in the control environment, the risk assessment articulates the current operational risk exposure against the firm's risk appetite. Significant control deficiencies that surface during the internal control and risk assessment processes are required to be reported in the operational risk inventory, and sustainable remediation must be defined and executed. All significant issues are assigned to owners at the senior management level and must be reflected in the respective manager's annual performance measurement and management objectives. To assist with prioritizing all known operational risk issues, irrespective of origin, a common rating methodology is adopted by all internal control functions and both internal and external audit. Group Internal Audit conducts an issue assurance process after a risk issue has been closed to maintain rigorous management discipline in the sustainable mitigation and control of operational risk issues.

IT Risks

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 loss 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, including through the introduction of viruses or malware, 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. 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 a security breach occurs 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.

Treasury management
Liquidity and funding management

Strategy and objectives

UBS Limited's liquidity and funding risk is monitored, efficiently structured and managed on an entity specific basis and as an integral part of the Group's liquidity and funding strategy.

The objective is to ensure that the Company has sufficient funds available to meet payment obligations when they fall due without additional funding from Group entities, in both normal and stress conditions, including an idiosyncratic liquidity event combined with a generally stressed market environment. UBS Limited uses the Group internal liquidity and funding models which are amended as appropriate to ensure that they appropriately reflect local requirements. The assumptions are reviewed by the UBS Limited Asset and Liability Committee (ALCO), Risk Committee and Board of Directors at least annually as part of the Internal Liquidity Adequacy Assessment Process (ILAAP).

Governance

UBS Limited's liquidity and funding strategy is proposed by the Treasurer, approved by the Board and overseen by the UBS Limited ALCO. Regional Treasury EMEA monitors and oversees the implementation and execution of the liquidity and funding strategy. The strategy is supported through liquidity and funding policy and a framework of liquidity and funding limits and targets. These are proposed by the Treasurer, independently assessed by Treasury Risk Control and reviewed by the UBS Limited ALCO before passing to the UBSL Risk Committee and Board for formal approval and adoption.

Regulatory liquidity requirements

The Company is subject to prudential regulations to maintain appropriate liquidity metrics, specifically the Liquidity Coverage Ratio (LCR) as required by the PRA. The LCR assesses whether the Company has sufficient High-Quality Liquid Assets (HQLA) to survive a significant stress scenario over a period of 30 days. For 2017, the PRA LCR minimum requirement was set at 90%. This will increase to 100% on 1 January 2018. Future changes in the regulatory regime will be adopted as the requirements evolve. This will include the Net Stable Funding Ratio (NSFR). The NSFR measures whether the Company has enough stable funding to cover funding requirements of its assets and off-balance sheet positions.

Funding management

UBS Limited is funded on a secured and unsecured basis with external and internal counterparts. The Company is active in wholesale money markets where it accepts deposits from corporate and financial institutions. The Company also engages in repurchase and reverse repurchase transactions with approved counterparties subject to credit risk control limits in place for the Company and the Group. Furthermore the Company accesses intercompany loans from UBS AG on standard market terms.

Liquidity management, contingency funding and stress testing

UBS Limited measures and monitors liquidity risk using a set of models, tools and controls covering normal and stressed market conditions. The key models address both near term liquidity risk as well as longer term structural liquidity and funding risk. The models assess whether the Company has sufficient liquidity to survive a combined severe idiosyncratic and market-wide stress event up to 3 months and whether the Company has sufficient long term funding to maintain franchise assets at a constant level under general market stressed conditions for up to one year.

UBS Limited's Contingency Funding Plan (CFP) summarizes liquidity and funding management actions and defines roles and responsibilities in supporting the liquidity of the entity in a liquidity stress. The establishment, regular testing and annual updating of the CFP ensures a robust, reliable and cost effective response to potential liquidity events. Liquidity crisis scenario analysis and contingency funding planning support the liquidity management process, which ensures that immediate corrective measures to absorb potential sudden liquidity shortfalls can be put into effect.

Maturity analysis of assets and liabilities

The table on the following page shows consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. The contractual maturity of liabilities is based on the earliest date the Company could be required to pay and the contractual maturity of assets is based on the latest date the asset will mature. This basis of presentation differs from Note 27 Financial assets and liabilities, which is presented on an undiscounted basis.

Derivative replacement values and trading portfolio assets and liabilities are assigned to the column 'Due less than 1 month', although the respective contractual maturities may extend over

significantly longer periods. Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the Perpetual / not applicable time bucket. Undated or perpetual instruments are classified based on contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the Perpetual / not applicable time bucket. Non-financial assets and liabilities with no contractual maturity (such as current and deferred tax assets and liabilities and retirement benefit liabilities) are generally included in the Perpetual time bucket. Loan commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets and liabilities

GBP million	Due less than 1 month	Due between 1 and 3 months	Due between 3 and 6 months	Due between 6 and 9 months	Due between 9 and 12 months	Due between 1 and 2 years	Due between 2 and 5 years	Due after 5 years	Perpetual/ non applicable	Total
Assets										
Cash and balances with central banks	109	–	–	–	–	–	–	–	–	109
Due from banks	1,189	–	–	–	–	–	–	–	–	1,189
Cash collateral on securities borrowed	4,310	–	–	–	–	–	–	–	–	4,310
Reverse repurchase agreements	2,601	1,114	413	201	349	–	178	–	–	4,856
Trading portfolio assets	4,122	–	–	–	–	–	–	–	–	4,122
of which: pledged as collateral	*2,067*	–	–	–	–	–	–	–	–	2,067
Positive replacement values	11,754	–	–	–	–	–	–	–	–	11,754
Cash collateral rec.on derivative instr.	5,509	–	–	–	–	–	–	–	–	5,509
Loans and advances to customers	595	9	–	–	37	27	47	8	–	722
Financial assets designated at FV	264	368	186	250	576	338	655	79	–	2,715
Other amounts due from group undertakings	116	–	–	–	–	–	–	–	–	116
Financial investments available-for-sale	–	–	–	–	–	–	–	–	2	2
Property and equipment	–	–	–	–	–	–	–	–	1	1
Deferred tax assets	–	–	–	–	–	–	–	–	7	7
Other assets	158	–	–	–	–	–	–	–	–	158
Total assets 2017	30,727	1,490	599	452	962	365	880	86	10	35,569
Total assets 2016	35,907	860	1,298	263	580	1,011	560	136	50	40,663
Liabilities										
Due to banks	1,299	751	925	–	666	397	47	692	–	4,777
Cash collateral on securities lent	105	–	–	–	–	–	–	–	–	105
Repurchase agreements	2,312	521	697	212	371	–	186	–	–	4,298
Trading portfolio liabilities	4,931	–	–	–	–	–	–	–	–	4,931
Negative replacement values	12,032	–	–	–	–	–	–	–	–	12,032
Cash collateral payables on derivative instruments	5,548	–	–	–	–	–	–	–	–	5,548
Total Financial liabilities designated at FV	134	–	–	–	45	2	1	79	–	260
Due to customers	359	–	–	–	–	–	–	–	–	359
Other amounts owed to group undertakings	101	–	–	–	–	–	–	–	–	101
Provisions	31	–	–	–	–	–	–	–	–	31
Other liabilities	64	231	–	–	–	–	–	–	–	295
Tax provision	–	–	–	–	–	–	–	–	23	23
Total liabilities 2017	26,915	1,503	1,622	212	1,082	399	233	771	23	32,760
Total liabilities 2016	33,455	1,003	1,570	136	329	318	122	822	34	37,789
Financial liabilities not recognized on the balance sheet										
Loan commitments	1,454	–	–	–	–	–	–	–	–	1,454
Credit & perf. guarantees, documentary credits & sim. instr.	4	–	–	–	–	–	–	–	–	4
Forward starting transactions										
Irrevocable forward starting reverse repo agreements	3,769	–	–	–	–	–	–	–	–	3,769
Total 2017	5,226	–	–	–	–	–	–	–	–	5,226
Total 2016	5,179	–	–	–	–	–	–	–	–	5,179

Capital management

Strategy and Objectives

UBS Limited's capital is managed through its capital management framework and by adhering to the Group capital Management Policy.

The objective of the capital framework is to ensure that the Company complies with relevant capital adequacy regulations at all times, adheres to internal capital constraints set locally and at a Group level, fosters an efficient use of capital and meets the strategic needs of its ultimate parent, UBS Group AG.

Governance

The Board is ultimately responsible for the Company's capital adequacy and delegates oversight and monitoring to the UBS Limited ALCO. The Board reviews related matters as escalated by the ALCO, Finance Director and Treasurer. The Board sets capital limits, thresholds and triggers as appropriate that incorporate escalation as required.

Regulatory Capital requirements

The Company's Capital Management Framework ensures compliance with regulatory requirements. Procedures are in place to monitor future changes to regulation and implement projects to ensure these are evaluated and incorporated into the reporting processes. Refer to Note 29 Share Capital for more information.

Capital management, recovery contingency planning and stress testing

The Company monitors its capital adequacy position daily. The ALCO formally reviews the capital position monthly and its risk weighted assets by business unit and risk type.

The Company undertakes quarterly stress tests of its capital position. The results are evaluated to ensure that internal thresholds set by management would continue to be met in the stress scenarios. The results are reported to the ALCO.

The overall Company planning process includes a capital plan which takes account of business forecasts, market conditions, and other developments such as accounting or regulatory changes that may impact capital.

Stress testing of the capital plan enables the Company to ensure its overall financial adequacy in a range of severe but plausible scenarios that is undertaken in accordance with Group frameworks. Stress testing enables the Company to gauge its PRA Buffer.

A range of possible capital restoration actions are considered as part of UBS Limited's Recovery Plan, although these actions can be taken at any time to ensure overall capital adequacy at all times. These actions include analysis of the credibility, effectiveness and timelines for raising various forms of capital.

Note 34 Events occurring after the balance sheet date

No significant events have been identified which remain to be adjusted in the financial statements.

Note 35 Parent undertaking

The ultimate parent undertaking and controlling party is UBS Group AG, a company incorporated in Switzerland. This is the largest group company preparing consolidated financial statements which include the Company's financial statements.

Copies of the financial statements of UBS Group AG can be obtained from the Company Secretary at 5 Broadgate London EC2M 2QS.

Rounding | Totals presented in these financial statements represent the precise underlying figures, rounded to the appropriate unit; they are not in all cases equal to the sums of the similarly rounded constituent entries as represented in the tables and text.

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