UBS

UBS Bank USA

2018 CIDI Resolution Plan
Public Section

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1. Introduction

In 2012, the Federal Deposit Insurance Corporation ("FDIC") adopted regulation 12 CFR Part 360 Section 10 ("Final IDI Rule") requiring an insured depository institution with $50 billion or more in total assets to submit periodically to the FDIC a contingent plan ("Plan") for the resolution of such institution in the event of its failure. UBS Bank USA ("BUSA" or "the CIDI") became a Covered Insured Depository Institution ("CIDI") as of 31 March 2016. The 2018 Plan ("2018 Plan") is BUSA's first submission of a Plan under the Final IDI Rule. In the 2018 Plan, BUSA has provided the FDIC with the information it needs to execute an orderly and cost-effective resolution of the CIDI in the improbable event of its failure. The 2018 Plan describes the CIDI's structure and activities and its preferred strategy for an orderly resolution, along with analysis of the elements required to execute the strategy.

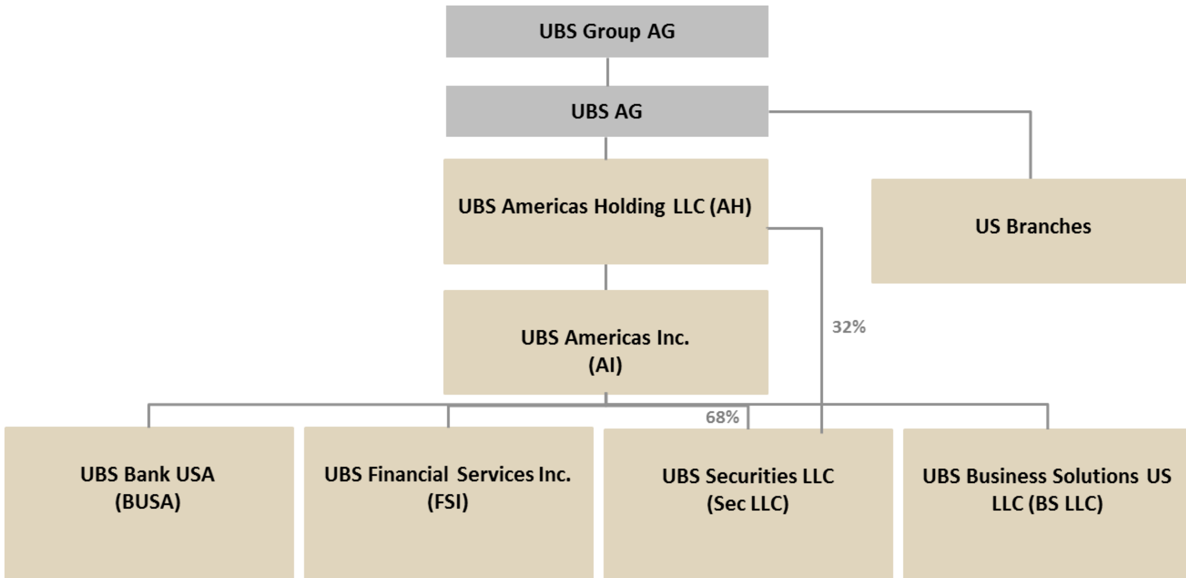
1.1. Background and Legal Entity Structure

BUSA is an indirect subsidiary of UBS Group AG. Headquartered in Zurich, Switzerland, UBS Group AG is the top-tier holding company for the UBS group of companies. UBS Group AG was formed as a non-operating holding company and became the top-tier holding company of UBS in December 2014. Under Swiss company law, UBS Group AG is organized as an Aktiengesellschaft, which is a corporation that has issued ordinary shares to investors.

UBS has offices in more than 50 countries and approximately 60,000 employees. Its business strategy is focused on the Global Wealth Management ("GWM") business and its universal bank in Switzerland, complemented by its Asset Management business and its Investment Bank ("IB") business. The operational structure of the Group is comprised of the following business divisions: GWM, Personal & Corporate Banking, Asset Management and the IB.

The legal entity structure of UBS's primary US subsidiaries and branches is set out in Figure 1 below.

Figure 1: US Legal Entity Structure



2. Overview of UBS Bank USA

BUSA is a Utah state-chartered industrial bank that is also an insured depository institution principally supervised by the FDIC. In addition to the FDIC, BUSA is regulated by the material supervisory authorities set out in Table 1 below.

Table 1. Material Supervisory Authorities for BUSA as of 31 December 2017

Type	Regulatory Authority
Incorporation	Utah Department of Commerce, Division of Corporations & Commercial Code
Regulatory Authority	Utah Department of Financial Institutions ("UDFI")
Regulatory Authority	Federal Deposit Insurance Corporation ("FDIC")
Regulatory Authority	Consumer Financial Protection Bureau ("CFPB")
Regulatory Authority	Board of Governors of the Federal Reserve System ("FRB")

BUSA provides banking products and services significant to the Wealth Management USA[1] ("WM USA") business. BUSA offers banking services primarily to WM USA clients who maintain brokerage accounts at UBS Financial Services Inc. ("FSI"); these services are listed below. As of 31 December 2017, BUSA had total assets of $53.5 billion.

- Securities-Backed Lending
  The securities-backed loan ("SBL") portfolio is BUSA's dominant lending product. BUSA is an industry leader in this product in terms of service quality and average balances per FSI financial advisor. The SBLs are collateralized by lending-eligible securities held in an FSI brokerage account. The proceeds of the loans cannot be used to purchase, carry or trade securities. The SBL borrowers are primarily high net worth ("HNW") and ultra-high net worth ("UHNW") WM USA clients sourced through FSI financial advisors. Loan statements are generated and provided to the clients by FSI. SBLs are generally uncommitted demand facilities and interest rates are generally variable but can be fixed or a combination thereof.

- Mortgages
  BUSA's mortgage portfolio consists of approximately $11.7 billion of high quality US mortgage loans originated primarily for WM USA clients. BUSA has been making residential mortgage loans since mid-2009.

- Cards
  BUSA issues credit cards primarily to WM USA clients and also issues debit cards primarily to clients who maintain a Resource Management Account ("RMA") account with FSI.

- Investment portfolio and cash
  BUSA's strategy for its excess cash and its Available For Sale ("AFS") portfolio is maintenance of liquidity and overall asset liability management. Due to the overarching asset liability management objectives, the AFS and cash portfolios take minimal credit or liquidity risk and generally qualify as high quality liquid assets ("HQLA") with low risk-based capital requirements.

- Bank Deposit Program
  BUSA's deposit base consists of non-maturity "sweep" deposits sourced from clients of FSI. Sweep deposits pricing is tiered, based on the level of deposits held by the client with UBS.

[1] WM USA was formerly known as the Wealth Management Americas ("WMA") business. In February 2018, UBS announced that it would combine its Wealth Management and Wealth Management Americas business divisions into a single business division, GWM, effective February 1, 2018. GWM's operations in the US are now referred to as Wealth Management USA ("WM USA") and are substantially the same as the former WMA business division. The 2018 Plan has been updated to reflect the re-branded name of WM USA, while all year-end financials or other published documents remain in the name of WMA. For the purposes of the 2018 Plan, WM USA and WMA should be considered interchangeable and refer to the same business.

The sweep deposits sourced from FSI clients are not considered "brokered deposits" per the primary purpose exception accorded to these deposits by the FDIC. As of 31 December 2017, BUSA's deposits totaled $48.0 billion.

- Community Reinvestment Act

  US law mandates that FDIC-insured depository institutions comply with the Community Reinvestment Act ("CRA"). The CRA is designed to encourage banks to help meet the needs of the communities in which they operate, including low and moderate income neighborhoods. BUSA purposefully seeks out loans and investments that help fulfill its regulatory CRA requirements. As of 31 December 2017, BUSA held CRA qualified Mortgage Backed Securities ("MBS") of approximately $334 million, a small equity investment, and a loan portfolio with an unused commitment amount of approximately $276 million to meet its requirements under the CRA.

3. Core Business Line Designation for 2018 Plan

Core Business Lines ("CBL") are defined in the Final IDI Rule as:

"*… those business lines of the CIDI, including associated operations, services, functions and support, that, in the view of the CIDI, upon failure would result in a material loss of revenue, profit, or franchise value.*"

BUSA has reviewed each of its businesses set out above from the perspective of revenue contribution, profit contribution and franchise value. As a result, BUSA has designated three CBLs to be included in the 2018 Plan:

1. Securities-Backed Lending,
2. Mortgages, and
3. Bank Deposit Program.

4. Material Entity Designation for 2018 Plan

A Material Entity is defined in the Final IDI Rule as:

"… a company that is significant to the activities of a critical service or core business line."

Critical Service is defined in the Final IDI Rule as:

"… services and operations of the CIDI, such as servicing, information technology support and operations, human resources and personnel that are necessary to continue the day-to-day operations of the CIDI."

BUSA has considered these definitions and, as a result, has identified two UBS affiliates as Material Entities for inclusion in the 2018 Plan: FSI and UBS Business Solutions LLC ("BS LLC"):

- FSI is the primary broker-dealer that conducts the WM USA business and provides the clients to which BUSA offers banking services and products. FSI is a Delaware corporation and is registered as a broker-dealer and investment adviser with the Securities and Exchange Commission ("SEC") and as a Futures Commission Merchant ("FCM") with the Commodity Futures Trading Commission ("CFTC"). FSI is a member of the Securities Investor Protection Corporation ("SIPC"), the Financial Industry Regulatory Authority ("FINRA"), the National Futures Association ("NFA"), and various exchanges. FSI is subject to regulation by each US state in which it conducts business. FSI provides Critical Services to BUSA.
- BS LLC is the US service company registered in Delaware and provides shared services to UBS subsidiaries and branches in the US, including BUSA. BS LLC is BUSA's primary service provider offering Critical Services. In 2016 and 2017 UBS has centralized its support functions that provide shared services (Finance, Risk Control, Human Resources, Operations, Technology, Legal, Communications & Branding, and Sourcing) and transferred these functions to the UBS Business Solutions entities in the US, Switzerland and the UK. This restructuring of UBS's shared services increased resilience and resolvability by ensuring operational continuity of critical services through the implementation of a Master Services Agreement ("MSA"). The MSA provides for the continuation of services throughout a stress or resolution period by the servicing entities, which are segregated and separately capitalized from the regulated operating activities of other UBS subsidiaries.

5. Financial Information

5.1. Balance Sheet

Table 2 below provides the audited balance sheet for BUSA as of 31 December 2017. This statement and all other financial information provided have been prepared in accordance with US Generally Accepted Accounting Principles ("US GAAP"). The composition of material asset and liability line items is described after the balance sheet.

Table 2. BUSA's Balance Sheet ($ million, 31 December 2017)

Assets	
Cash and cash equivalents	3,245
Investment securities available for sale, at fair value	6,276
Loans receivable	*43,751*
Allowance for loan losses	*(29)*
Loans receivable, net	43,722
Loans held for sale	1
Accrued interest receivable	49
Other assets	202
Total assets	**53,495**
Liabilities and stockholder's equity	
Liabilities	
Interest-bearing deposits	*47,985*
Non- interest-bearing deposits	*4*
Total deposits	47,989
Other liabilities	148
Total liabilities	**48,137**
Stockholder's equity	
Common stock, $1 par value; 100,000 shares authorized; 1,000 shares issued and outstanding	0.001
Additional paid-in capital	1,910
Retained earnings	3,506
Accumulated other comprehensive loss	(58)

Total stockholder's equity	**5,358**
Total liabilities and stockholder's equity	**53,495**

5.1.1. Material Assets

As of 31 December 2017, BUSA had $53.495 billion in assets, of which $43.722 billion consisted of net loans receivable. The majority of BUSA's loan portfolio is attributable to its Securities-Backed Lending CBL, with its Mortgages CBL also comprising a significant portion.

5.1.2. Material Liabilities

As of 31 December 2017, BUSA had $48.137 billion in liabilities. BUSA's liabilities primarily consist of deposits related to its Bank Deposit Program, the balance of which amounted to $47.989 billion as of 31 December 2017. BUSA issues time certificates of deposit through a brokerage relationship with its affiliate, UBS AG Stamford Branch. As of 31 December 2017, the balance of these certificates of deposit was $1.691 billion.

5.2. Capital

BUSA's capital base is comprised exclusively of shareholder's common equity, all of which is owned by BUSA's direct parent, UBS Americas Inc. ("UBS AI"). As illustrated in the balance sheet in Table 2, BUSA's shareholders' equity totaled $5.358 billion as of 31 December 2017.

BUSA is subject to various regulatory capital requirements administered by the FDIC and the UDFI. As of 31 December 2017, BUSA was "well capitalized" under the regulatory framework for prompt corrective action. To maintain a" well capitalized" designation, BUSA must maintain minimum total risk-based, Tier 1 risk-based, Common equity Tier 1 capital, and Tier 1 leverage capital ratios as outlined in Table 3. Management asserts that there are no conditions or events since 31 December 2017 which would change BUSA's designation from "well capitalized". BUSA's actual capital amounts and ratios under Basel III as of 31 December 2017 are presented in Table 3 below.

Table 3. BUSA's Capital Amounts and Ratios (per Transitional Basis Basel III Regulatory Capital Rules) as of 31 December 2017

	Actual		To be Well-Capitalized		Minimum for Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	5,445	36.2%	1,506	10.0%	1,205	8.0%
Tier 1 capital (to risk-weighted assets)	5,416	36.0%	1,205	8.0%	904	6.0%
Common equity tier 1 capital (Basel III)	5,416	36.0%	979	6.5%	678	4.5%
Tier 1 capital (to average assets	5,416	10.3%	2,633	5.0%	2,106	4.0%

5.3. Major Funding Sources

BUSA is primarily funded through deposits and equity. BUSA's capital base is comprised 100% of shareholders' common equity, all of which is owned by UBS AI. The majority of liabilities are sourced from its Bank Deposit Program CBL. BUSA has additional access to funding through an intercompany revolving credit line from the parent of UBS AI, UBS Americas Holding LLC. There were no advances or borrowings under this line in 2017. In addition to the funding through deposits, the remaining portion of BUSA's liabilities arise from net payables to affiliates related to the services provided by affiliates to BUSA.

6. BUSA Memberships in Material Payment, Clearing and Settlement Systems

Payment, clearing and settlement systems are primarily comprised of Financial Market Utilities ("FMUs"). FMUs are multilateral systems that provide the infrastructure for transferring, clearing and settling payments, securities, and other financial transactions among financial institutions or between financial institutions and the system.

BUSA is not a direct member of any FMUs. However, BUSA does rely on Citibank N.A. for access to the Depository Trust Company ("DTC"). In addition, BUSA relies on the UBS AG New York WMA Branch for access to Fedwire through correspondent accounts held at the UBS AG Stamford Branch to complete USD cash clearing and on UBS AG to access SWIFT.

An Agent Bank is a bank that conducts banking activities on behalf of another bank or non-bank (including access to FMUs). Table 4 below identifies the agent banks that BUSA utilizes for purposes of conducting its business activities.

Table 4: Key BUSA Agent Bank relationships

Agent Bank	Description
Citibank N.A.	Citibank is used to clear all of BUSA's investments as well as safekeeping and custodial accounts. UBS AG pledges US Treasuries as collateral to BUSA to secure its credit extension to the entity. This Regulation W collateral account is held at Citibank through the UBS AG Cayman Branch.
Bank of New York Mellon	BUSA holds an account with Bank of New York Mellon as a back-up to ensure continuity for the SBL lending activity and other BUSA wires as warranted. This account is for emergency wire transfers and only used when the UBS AG Stamford Branch wire system is experiencing interruption and/or technical difficulties.

7. Key Management Information Systems

BUSA has a robust set of MIS and applications that collectively provide frequent and reliable reporting of the required risk management, accounting and financial, and regulatory reporting. BUSA emphasizes strict adherence to a set of data management principles and policies, which ensure that the MIS and applications produce reliable, consistent reports. Key MIS include:

Risk Management: Performs risk simulations and calculations and supports capital and liquidity stress models, among others.

Accounting and Financial: Balance sheet, credit data and facilitates data reconciliation, among others.

Regulatory: Provides suite of standard management and regulatory reporting.

8. Preferred Resolution Strategy

The 2018 Plan considers a resolution scenario where a hypothetical idiosyncratic loss event would lead to the unlikely failure of BUSA under baseline economic conditions as set out in the Federal Reserve Board's DFAST[2] scenarios. In preparing the 2018 Plan, BUSA has assessed potential strategies for the sale or disposition of its assets and deposits, including CBLs.

BUSA's preferred resolution strategy presented and analyzed in the 2018 Plan is the sale of the assets and businesses of BUSA to a single purchaser (Single Acquirer Strategy). In BUSA's view, the Single Acquirer Strategy is best suited to address the objectives of the 2018 Plan and a FDIC Receivership while serving the best interests of BUSA's clients maintaining the highest franchise value and resulting in the least cost to the FDIC Deposit Insurance Fund ("DIF").

In the Single Acquirer Strategy, the FDIC appointed receiver for BUSA ("BUSA Receiver") would agree to sell and transfer all of the assets and deposits of BUSA to a single insured depository institution (the "Acquiring Bank"). In order to execute the transaction, the BUSA Receiver would work cooperatively with FSI to ensure a smooth transition of WM USA clients' accounts. The strategy would be executed as an asset sale, with the assets related to each CBL being transferred to the Acquiring Bank. BUSA's investment portfolio would be monetized, and all other assets are conservatively assumed to be written-off. The Single Acquirer Strategy would, in the view of BUSA, be the most likely strategy to enable the BUSA Receiver to resolve BUSA in accordance with the Federal Deposit Insurance Act ("FDIA") in a manner that ensures that depositors receive access to their insured deposits within one business day of BUSA's hypothetical failure (two business days if the failure occurs on a Friday), maximizes the net present value return from the sale or disposition of BUSA's assets and minimizes the amount of any loss realized by the creditors in the resolution of BUSA.

In the view of BUSA, the range of potential purchasers that could acquire the assets and deposits of BUSA under the Single Acquirer Strategy would most likely be insured depository institutions that have the infrastructure to service the SBLs and mortgages, experience with bulk deposits received from a broker-dealer with a similar business model as FSI, sufficient capital required to cover the valuation of the transaction and, finally, sufficient liquidity and funds to close the transaction. There are several wealth managers in the US that have business models similar to that of BUSA and

[2] DFAST refers to the Dodd-Frank Act Stress Test that BUSA is subject to annually.

FSI and offer such arrangements to other broker-dealers. These wealth managers would most likely be interested in developing a relationship with FSI and are likely to have the operational resources, financial capacity, and desire to acquire the assets and deposits of BUSA. In addition, there are certain insured depository institutions that have relationships with FSI through the FSI multi-bank sweep deposit program that would also be interested in acquiring the assets and deposits of BUSA and becoming FSI's primary insured depository institution partner.

While the Single Acquirer Strategy is the preferred strategy, the assets and deposits of BUSA could be sold separately to multiple acquirers. The Mortgages CBL could be sold to a mortgage servicing firm and the Bank Deposit Program and the SBL CBLs could be sold together to a separate insured depository bank or the SBL program could be dismantled by the BUSA Receiver and the Bank Deposit Program sold as a stand-alone acquisition. Alternatively, the Bank Deposit Program could be dismantled by returning the insured deposits to FSI to be placed with other insured depository institutions that already participate in FSI's multi-bank sweep program. However, the dismantling or dividing of the assets and deposits of BUSA would, in the view of BUSA, result in a more disruptive resolution for the clients of FSI and would likely result in less revenue for the BUSA Receiver and therefore could be more costly to the DIF.

9. Governance over Resolution Planning and Principal Officers of BUSA

BUSA has a robust corporate governance and risk management framework. It has a board of directors (the "Board") comprised of a majority of independent directors and a number of Board and management committees (e.g. Audit, Risk, Enterprise Risk Management, Asset and Liability Management). Its governance and risk management framework complies with regulatory guidance and requirements.

BUSA has implemented and embedded corporate governance surrounding resolution planning into BUSA's business-as-usual governance mechanisms, including engagement of senior executives throughout the development of the 2018 Plan, and a multi-tiered approval process that includes senior executives and the Board. Prior to the approval of the 2018 Plan by the Board, the plan was approved by key officers of BUSA: the Vice-Chairman, the President, the General Counsel, and the

Chief Financial Officer. The Board has been engaged in the resolution planning process from the initial planning stages through to the approval of the 2018 Plan. The Board approved the 2018 Plan in June 2018 and directed recording of such approval in the minutes prior to submission of the 2018 Plan to the FDIC.

In addition, BUSA established the IDI Resolution Planning Committee ("the Committee"). The charter for the Committee was approved by the Board and the President and Chief Administrative Officer is the Chairman. The Board will review and approve the Committee Charter at least annually. The Committee is comprised of key senior executives in BUSA and includes standing guest representatives from the WM USA business and the US Recovery and Resolution Planning team.

The Committee is responsible for overseeing and directing the development of the FDIC resolution plan submissions, including the 2018 Plan. During the development of the 2018 Plan, the Committee met at least monthly throughout the development of the 2018 Plan and will continue to meet at least quarterly after submission of the 2018 Plan during the FDIC review process. Resolution planning is an iterative process between BUSA and the FDIC and the Committee will be responsible for managing the communication with the FDIC, incorporating feedback as it is received and developing all future FDIC resolution plan submissions. The Committee ensures clear accountability and, thereby, the effective preparation, maintenance and submissions along with ensuring BUSA has complied with all requirements set out in the Final IDI Rule or in future guidance provided by the FDIC that is applicable to BUSA.

Tables 5 and 6 below set out the principal officers of BUSA and the composition of the Board as of 30 June 2018.

Table 5 BUSA's Principal Officers as of 30 June 2018

Title	**Name**
Vice Chairman	Frank Destra
President & Chief Administrative Officer	Lee Carter
Chief Financial Officer	Jean Perschon
Chief Credit Officer	Steven Stewart
General Counsel	Douglas Hollowell
Chief Risk Officer	Andreas Wyler
Chief Technology Officer	William Yannotta
Head of Operations	Chris DeCarlo
Head of Business Risk Management	Tim Handley
Chief Compliance Officer	Scott Temby

Table 6 below sets out the composition of the Board as of 30 June 2018

Role	Function holder
Chairman	Michael Blum
Vice Chairman	Frank Destra
Chief Financial Officer, US Chief Financial Officer	Scott Bowen
Independent Director	Louis Eber
Independent Director	Andrea Bierce
Independent Director	Donald Gershuny
Independent Director	Jefferson E. Hughes
Independent Director	Gary J. Myers
Independent Director	Frank Piantidosi

10. Foreign Operations of BUSA

While BUSA is a subsidiary of UBS Group AG in Switzerland, as of 30 June 2018, BUSA does not conduct any foreign or branch operations as its products and services are offered exclusively in the US and its territories and primarily to residents of the United States.

11. Derivative and Hedging Activities

BUSA has very limited derivative and hedging activities. As of 31 December 2017, BUSA was a party to two interest rate swaps with an underlying notional value of $20 million.