UBS

UBS Europe SE

Annual Financial Statements as of 31 December 2017
(and complementary disclosures)

Translation of the German independent auditor's report concerning the audit of the annual financial statements and management report prepared in German

Independent auditor's report

To UBS Europe SE

Report on the audit of the annual financial statements and of the management report

Opinions

We have audited the annual financial statements of UBS Europe SE, Frankfurt am Main, which comprise the balance sheet as at 31 December 2017, and the income statement for the fiscal year from 1 January 2017 to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of UBS Europe SE for the fiscal year from 1 January 2017 to 31 December 2017. In accordance with the German legal requirements, we have not audited the content of the statement on corporate governance pursuant to Sec. 289f (4) HGB ("Handelsgesetzbuch": German Commercial Code) (disclosures on the quota for women on executive boards).

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the fiscal year from 1 January 2017 to 31 December 2017 in compliance with German legally required accounting principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report. Our opinion on the combined management report does not cover the content of the statement on corporate governance (proportion of women in management positions) referred to above.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2017 to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Recognition and measurement of provisons for legal risks

Reasons why the matter was determined to be a key audit matter

The Company operates in a legal and regulatory environment that is exposed to significant litigation and similar risks arising from disputes and regulatory proceedings. Such matters are subject to many uncertainties and the outcome may be difficult to predict. These uncertainties inherently affect the amount and timing of potential outflows with respect to the provisions which have been established and other contingent liabilities. Overall, the legal provision represents the Company’s best estimate for existing legal matters that have a probable and estimable impact on the Company’s financial position.

Additionally, UBS Europe SE has received an indemnity guarantee from the Swiss parent company UBS AG with regard to a part of its pending legal lawsuits. Therefore, a provision does not have to be recognized for uncertain liabilities in respect to the amounts claimed under these pending lawsuits plus the related interest and further costs.

There are risks in the annual financial statements in relation to the completeness and the assessment of the matters concerned. We therefore identified the recognition and valuation of provisions for legal risks as a key audit matter.

Auditor’s response

We examined the process for identifying legal risks. We compared the methodologies on which the provision amounts are based with the legal assessments. Additionally we checked the mathematical correctness of the provision. We read the legal analyses supporting the judgmental aspects impacted by legal interpretations. We obtained correspondence directly from all external legal counsel and followed up directly with external counsel as deemed necessary. We also assessed the Institution`s provisions disclosure within the notes to the financial statements and the management report.

We have verified the effectiveness of the indemnity agreement concluded between UBS Europe SE and UBS AG in favor of UBS Europe SE, as a result of which provisions do not need to be recognized for pending litigation relating to a certain portfolio of pending lawsuits.

Furthermore, we ensured that UBS Europe SE has established a process for regularly reviewing the creditworthiness of UBS AG, one of its major borrowers, and that there are no doubts as to the creditworthiness of the borrower UBS AG in terms of the total outstanding and the guarantee amount.

We inspected a sample of the case files or court records in order to reconcile the respective amounts with the calculation of the maximum indemnity and with the statement detailing the overall portfolio.

On the basis of Management Board meeting minutes we retraced that the Management Board has been informed by the Legal Department on a quarterly basis about major changes or events in the portfolio of pending lawsuits that are covered by the indemnity agreement.

Our audit procedures did not lead to any reservations concerning the recognition and measurement of provisions for legal risks.

Reference to related disclosures

The Institution`s disclosures on the principles for recognition and measurement of provisions for legal risks are provided in section "Accounting and valuation principles" of the notes to the financial statements and in section "Litigation" of the management report.

Other information

The supervisory board is responsible for the supervisory board`s annual report. In all other respects, the executive directors are responsible for the other information. The other information comprises the disclosures on the quota for women on executive boards in the management report, and the Report on German Transparency of Remuneration that will be published as an appendix of the management report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibilities of the executive directors and the supervisory board for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's responsibilities for the audit of the annual financial statements and of the management report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with (German) law, and the view of the Company's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on 6 June 2017. We were engaged by the supervisory board on 6 June 2017. We have been the auditor of UBS Europe SE without interruption since fiscal year 2000.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).
In addition to the financial statement audit, we have provided to the Company or entities controlled by it the following services that are not disclosed in the annual financial statements or in the management report:

- The audit of the reporting requirements and the rules of conduct pursuant to Sec. 36 (1) WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act) and Sec. 36 (1) Sentence 2 WpHG as well as of the custody operations within the meaning of Sec. 1 (1) Sentence 2 No. 5 KWG for the reporting period 1 July 2016 to 30 June 2017

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Holger Lösken."

Eschborn/Frankfurt am Main, 3 May 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

signed	signed
Lösken	Kuhlmann
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor]	(German Public Auditor]

Balance Sheet as of 31 December 2017
UBS Europe SE
Bockenheimer Landstraße 2-4
60306 Frankfurt am Main

Assets

			31. December 2017	31. December 2016
	EUR	EUR	EUR	EUR k
1. Cash reserve				
a) Cash on hand		**1.578.960,36**		1.731
b) Balances at central banks		**4.333.479.591,65**		4.056.217
thereof: at Deutsche Bundesbank Euro 4.210.693.821,87 (prior year: EUR k 3.913.227)			**4.335.058.552,01**	**4.057.948**
3. Due from banks				
a) Payable on demand		**4.568.095.915,67**		11.459.859
b) Other amounts due		**1.974.750.833,17**		5.134.770
			6.542.846.748,84	**16.594.629**
4. Due from customers			**5.247.887.139,04**	**5.207.363**
thereof: secured by real estate property liens Euro 176.124.580,32 (prior year: EUR k 208.696)				
5. Debt securities and other fixed-income securities				
a) Money market securities				
aa) Issued by the public sector	125.581.752,38			175.035
thereof: eligible as collateral with Deutsche Bundesbank Euro 125.581.752,38 (prior year: EUR k 0)				
ab) Issued by other borrowers	321.430.913,38	**447.012.665,76**		542.434
thereof: eligible as collateral with Deutsche Bundesbank Euro 0,00 (prior year: EUR k 47.168)				
b) Bonds and debt securities				
ba) Issued by the public sector	210.200.539,22			1.074.629
thereof: eligible as collateral with Deutsche Bundesbank Euro 41.521.308,82 (prior year: EUR k 0)				
bb) Issued by other borrowers	451.825.957,22	**662.026.496,44**		572.960
thereof: eligible as collateral with Deutsche Bundesbank Euro 142.697.476,56 (prior year: EUR k 58.673)			**1.109.039.162,20**	**2.365.058**
6. Shares and other variable-yield securities			**1.233.700,25**	**5.125**
7. Equity investments			**11.156,00**	**11**
thereof: in banks Euro 0,00 (prior year: EUR k 0)				
thereof: in financial services institutions Euro 0,00 (prior year: EUR k 0)				
8. Shares in affiliates			**10.133.693,62**	**11.478**
thereof: in banks Euro 0,00 (prior year: EUR k 0)				
thereof: in financial services institutions Euro 0,00 (prior year: EUR k 0)				
9. Trust assets			**51.231.076,00**	**71.822**
thereof: trust loans Euro 0,00 (prior year: EUR k 0)				
11. Intangible assets			**0,00**	**0**
b) Purchased franchises, industrial and similar rights and assets and licenses in such rights and assets		**1.252.964,48**		2.156
c) Goodwill		**22.117.895,82**		26.314
			23.370.860,30	**28.470**
12. Property and equipment			**19.074.709,92**	**21.828**
14. Other assets			**442.368.949,43**	**670.279**
15. Prepaid expenses			**7.937.362,29**	**5.326**
16. Deferred tax assets			**0,00**	**0**
		Total assets	**17.790.193.109,90**	**29.039.337**

Balance Sheet as of 31 December 2017
UBS Europe SE
Bockenheimer Landstraße 2-4
60306 Frankfurt am Main

Liabilities and equity

				31. December 2017	31. December 2016
		EUR	EUR	EUR	EUR k
1.	**Liabilities to banks**				
	a) Payable on demand		**1.073.750.444,62**		6.583.217
	b) With an agreed term of period of notice		**171.766.362,65**		4.333.197
				1.245.516.807,27	**10.916.414**
2.	**Liabilities to customers**				
	b) Other liabilities				
	ba) Payable on demand		**13.823.168.345,95**		14.864.791
	bb) with an agreed term of period of notice		**638.070.614,03**		862.688
				14.461.238.959,98	**15.727.479**
3.	**Securitized liabilities**				
	a) Debt securities issued		**4.943.310,46**		5.094
	b) Other securitized liabilities		**0,00**		0
	thereof: own acceptances and promissory notes outstanding Euro 0,00 (prior year: EUR k 0)			**4.943.310,46**	**5.094**
4.	**Trust liabilities**			**51.231.076,00**	**71.822**
	thereof: trust loans Euro 0,00 (prior year: EUR k 0)				
5.	**Other liabilities**			**486.727.433,05**	**530.119**
6.	**Deferred income**			**1.049.362,16**	**3.449**
6a.	**Deferrred tax liabilities**			**0,00**	**0**
7.	**Provisions**				
	a) Provisions for pensions and similar obligations		**231.808.180,17**		218.974
	b) Tax provisions		**9.816.740,93**		23.409
	c) Other provisions		**130.829.218,17**		164.718
				372.454.139,27	**407.101**
9.	**Subordinated liabilities**			**0,00**	**0**
10.	**Participation certificate capital**			**0,00**	**0**
	thereof: due within two years Euro 0,00 (prior year: EUR k 0)				
11.	**Fund for general banking risks**			**6.500,00**	**25**
	thereof: special reserve pursuant to Sec. 340e (4) HGB Euro 6.500,00 (prior year: EUR k 25)				
12.	**Equity**				
	a) Subscribed capital		**446.001.000,00**		176.001
	b) Capital reserves		**536.404.601,10**		986.405
	c) Revenue reserves				
	cd) Other revenue reserves	46.428.856,75	**46.428.856,75**		46.428
	d) Net retained profit/accumulated loss		**138.191.063,86**		169.000
				1.167.025.521,71	**1.377.834**
			Total liabilities and equity	**17.790.193.109,90**	**29.039.337**
1.	**Contingent liabilities**				
	b) Guarantees		**87.745.081,68**		**146.919**
				87.745.081,68	**146.919**
2.	**Other obligations**				
	c) Irrevocable loan commitments		**85.278.986,19**		**184.388**
				85.278.986,19	**184.388**

Income statement
UBS Europe SE
Bockenheimer Landstraße 2-4
60306 Frankfurt am Main

for the period from 1 January 2017 to 31 December 2017

				31. December 2017	31. December 2016
		EUR	EUR	EUR	EUR k
1.	**Interest income from**				
	a) Lending and money market transactions	**57.653.631,83**			54.012
	thereof: Negative interest income from lending and money market transactions Euro 43.048.807,08 (prior year: EUR k 29.341)				
	b) Fixed-Income securities and government-inscribed debt	**28.572.681,33**	**86.226.313,16**		4.311
2.	**Interest expenses**		**28.854.373,49**		20.351
	thereof: Negative interest exenses Euro 22.032.223,20 (prior year: EUR k 22.648)				
				57.371.939,67	**37.972**
3.	**Current income from**				
	a) Shares and other variable-yield securities		**0,00**		0
	b) Equity investments		**7.874.414,00**		170
				7.874.414,00	**170**
5.	**Commission income**		**574.144.313,99**		408.774
6.	**Commission expense**		**72.366.185,11**		49.124
				501.778.128,88	**359.650**
7.	**Net income or net expense from trading book positions**			**18.400,00**	**0**
	thereof: Allocation to the special item/income from the reversal of the special item "Fund for general banking risks" Euro 18.400,00 (prior year: EUR k 0)				
8.	**Other operating income**			**111.989.062,35**	**62.188**
10.	**General administrative expenses**				
	a) Personnel expenses				
	aa) wages and salaries	**245.510.441,75**			232.742
	ab) Social security, pension and other benefit costs	**43.519.767,46**	**289.030.209,21**		35.346
	thereof: for pensions Euro 13.549.588,29 (prior year: EUR k 7.760)				
	b) Other administrative expenses		**236.120.876,89**		179.837
				525.151.086,10	**447.925**
11.	**Amortization, depreciation and write-downs of intangible assets and property and equipment**			**11.115.426,00**	**8.239**
12.	**Other operating expenses**			**15.866.782,81**	**33.373**
13.	**Write-downs of and allowances on amounts due and certain securities as well as allocations to provisions for possible loan losses**			**1.637.908,50**	**981**
14.	**Income from the write-up of amounts due and certain securities as well as from the reversal of provisions for possible loan losses**			**3.130.181,05**	**84**
15.	**Write-downs of and allowances on equity investments, shares in affiliates and securities classified as fixed assets**			**1.545.966,27**	**1.553**
16.	**Income from write-ups on equity investments, shares in affiliates and securities classified as fixed assets**			**0,00**	**19**
19.	**Results from ordinary activities**			**126.844.956,27**	**-31.988**
23.	**Income taxes**			**37.351.888,82**	**16.147**
	thereof: Deferred taxes Euro 0,00 (prior year: EUR k 0)				
24.	**Other taxes not disclosed under item 12**			**1.302.003,59**	**0**
27.	**Net income/net loss for the year**			**88.191.063,86**	**-48.135**
28.	**Profit/loss carryforward from the prior year**			**0,00**	**0**
29.	**Withdrawals from the capital reserve**			**50.000.000,00**	**217.135**
34.	**Net retained profit/accumulated loss**			**138.191.063,86**	**169.000**

Translation from the German language

UBS Europe SE
Notes to the financial statements as of 31 December 2017

General

The financial statements for fiscal year 2017 of UBS Europe SE, headquartered in Frankfurt am Main and registered in the commercial register of Frankfurt Local Court under HRB no. 107046, were prepared in accordance with the provisions of the HGB ["Handelsgesetzbuch": German Commercial Code], the AktG ["Aktiengesetz": German Stock Corporation Act] and in compliance with the RechKredV ["Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute": German Bank and Financial Services Institutions Accounting Directive].

The structure of the balance sheet and income statement follows the forms prescribed by the RechKredV.

UBS Europe SE is not publicly traded ("capital market-oriented" as defined by Sec. 264d HGB) and has therefore opted not to prepare a cash flow statement or a statement of changes in equity.

Accounting and valuation principles

The accounting and valuation principles have not changed compared to the prior year, with exception of the valuation of securities held in the liquidity reserve.

The items of the **cash reserve** are stated at their nominal amount.

Amounts due from banks and customers were reported at their nominal amount, with differences between the issuing amount and the nominal amount deferred over the respective term.

Sufficient provision was made for identifiable and general risks in the lending business. A general bad debt allowance was set up in an appropriate amount to account for the general credit risk and calculated in accordance with the letter from the Federal Ministry of Finance, dated 10 January 1994.

Securities held in the liquidity reserve were included in the valuation of interest rate transactions at present value in accordance with IDW AcP [IDW Stellungnahme zur Rechnungslegung] BFA 3 "Aspects of valuing interest rate transactions of the banking book (interest rate book) at net realizable value" (prior year valuation according to the lower of cost or market principle), while other securities were measured on the basis of the modified lower of cost or market principle.

Securities lending transactions do not involve the derecognition of securities loaned or the recognition of securities borrowed, as the risk arising from the security and the corresponding beneficial ownership remains with the lender.

Equity investments and **shares in affiliates** are valued at the lower of cost or market.

Trust assets and liabilities result from investments in private equity funds held in trust. They are recognized at the lower of cost or market principle.

Intangible assets, goodwill and property and equipment are recognized at acquisition and production cost and depreciated or amortized on a straight-line basis over their expected useful lives.

Low-value assets are either fully expensed in the year of acquisition (with a net acquisition cost of up to and including EUR 150), or depreciated on a straight-line basis by 20.00% each year (assets costing more than EUR 150 up to and including EUR 1,000).

Prepaid expenses and deferred income include payments which will be recognized in the income statement in future fiscal years. This primarily relates to premiums paid and received and advance payments of non-staff operating costs.

Liabilities are stated at the settlement value.

The option provided by Sec. 274 (1) Sentence 2 HGB is applied, meaning that no deferred tax assets are recognized.

The excess of deferred tax assets primarily resulted from tax loss carryforwards in various tax jurisdictions and deductible temporary differences in the balance sheet items "Provisions for pensions and similar obligations," "Other assets," "Property and equipment" and "Intangible assets" in various tax jurisdictions that are not offset by material taxable temporary differences on the liability side.

Deferred taxes are measured using the respective national and company-specific tax rates at the expected realization date. The applicable tax rates are 31.93% in Germany (comprising corporate income tax of 15.83% plus the solidarity surcharge), 25.00% in Austria and the Netherlands, 27.50% in Italy (IRES tax rate plus 5.57% IRAP), 27.08% (reduced to 26.01% from 1 January 2018) in Luxembourg, 30.00% in Spain and 22.00% in Denmark and Sweden.

The **pension and similar obligations** were calculated in an actuarial report (using the projected unit credit method) applying the 2005 G mortality tables of Dr. Heubeck. They were discounted using the average market interest rate for the past 10 fiscal years. Freely available reserves were retained for the difference in profit which would have arisen if discounting had been carried out using the average market interest rate for the last 7 fiscal years.

In calculating the **provisions**, all identifiable risks and uncertain liabilities were taken into account in accordance with prudent business judgment.

The settlement value of the **other provisions** was calculated taking future price and cost increases into account. Provisions with a residual term of more than one year were discounted at the average market interest rate of the last 10 fiscal years for their respective residual terms as determined by Deutsche Bundesbank. Indemnification claims were taken into consideration in measuring provisions, which were thus presented on a net basis.

Forward and other derivative transactions involving indices and interest rate agreements were valued at the prices and interest rates on the balance sheet date. Derivative transactions entered into to hedge the Bank's interest rate risk are included in the valuation of interest rate transactions in the banking book at net realizable value.

Valuation of interest rate transactions in the banking book at net realizable value

The principle of prudence enshrined in German commercial law must be applied for all interest rate financial instruments in the banking book by recognizing a provision pursuant to Sec. 340a in conjunction with Sec. 249 (1) Sentence 1 Alt. 2 HGB ("provision for potential losses") for any net obligation from the valuation of the interest component of the entire interest position. As of 31 December 2017, the Bank applied the IDW AcP [IDW Stellungnahme zur Rechnungslegung] BFA 3 "Aspects of valuing interest rate transactions of the banking book (interest rate book) at net realizable value" issued on 30 August 2012 for the valuation of interest rate transactions at net realizable value. The present value of the interest result from these transactions is compared with the administrative and risk costs. As of the balance sheet date, there was no net obligation. No provisions were therefore recognized.

Foreign currency receivables and liabilities were valued at the ECB mean exchange rate on the balance sheet date. If the ECB does not publish mean rates, currency positions are valued at market rates. Unsettled spot exchange and forward exchange transactions were valued using the respective mean spot or forward rate on the balance sheet date. All foreign currency transactions are hedged by concluding matching offsetting transactions in the same currency. Expenses and income from currency translation are treated in accordance with the requirements of Sec. 340h HGB. The result from currency translation is recorded in the income statement under "Other operating income."

UBS Europe SE
Notes to the financial statements as of 31 December 2017

Notes to the balance sheet

Maturity breakdown

Due from banks	31 Dec 2017	31 Dec 2016
	EUR k	EUR k
Other amounts due in		
three months or less	938.274	1.786.410
more than three months and up to one year	866.070	2.980.397
more than one year and up to five years	106.246	217.546
more than five years	64.161	150.416
Total	**1.974.751**	**5.134.769**

Due from customers	31 Dec 2017	31 Dec 2016
	EUR k	EUR k
Due in		
three months or less	2.150.749	2.465.259
more than three months and up to one year	2.095.413	1.655.007
more than one year and up to five years	517.941	487.533
more than five years	31.751	67.795
with an indefinite term	452.033	531.769
Total	**5.247.887**	**5.207.363**

Liabilities to banks	31 Dec 2017	31 Dec 2016
	EUR k	EUR k
With an agreed term or period of notice of		
three months or less	4.197	2.648.327
more than three months and up to one year	9.269	1.181.576
more than one year and up to five years	149.684	471.702
more than five years	8.616	31.592
Total	**171.766**	**4.333.197**

Liabilities to customers	31 Dec 2017	31 Dec 2016
	EUR k	EUR k
With an agreed term or period of notice of		
three months or less	317.451	471.093
more than three months and up to one year	153.924	39.243
more than one year and up to five years	106.246	206.159
more than five years	60.450	146.192
Total	**638.071**	**862.687**

UBS Europe SE
Notes to the financial statements as of 31 December 2017

Due from affiliates		
	31 Dec 2017	**31 Dec 2016**
	EUR k	EUR k
Amounts due from banks	2.751.264	8.312.483
Thereof amounts due from UBS AG	*2.667.671*	*8.271.823*
Amounts due from customers	10.794	10.874

Liabilities to affiliates		
	31 Dec 2017	**31 Dec 2016**
	EUR k	EUR k
Liabilities to banks	1.141.248	10.880.203
Thereof liabilities to UBS AG	*802.990*	*10.477.327*
Liabilities to customers	503.548	264.323
Subordinated liabilities	0	0

Due from other investees and investors		
	31 Dec 2017	**31 Dec 2016**
	EUR k	EUR k
Amounts due from customers	10.012	10.018

Liabilities to other investees and investors		
	31 Dec 2017	**31 Dec 2016**
	EUR k	EUR k
Liabilities to customers	9.234	31.489

Shares and other variable-yield securities	
	31 Dec 2017
	EUR k
Negotiable:	1,234
Listed:	-

Debt securities and other fixed-income securities	
	31 Dec 2017
	EUR k
Due in the following year	658,539
Negotiable:	1,109,039
Listed:	1,109,039

Debt securities issued	
	31 Dec 2017
	EUR k
Due in the following year	4,943

"**Shares and other variable-yield securities**" include shares in a real estate fund and variable-yield debt securities which are all not attributable to the trading book.

Statement of changes in fixed assets

in EUR k	**Acquisition or production cost**						
	Opening balance	Translation differences in opening balance	Additions	Thereof capitalized borrowing costs	Disposals	Reclassifications	Closing balance
Shares and other variable-yield securities	7,969				2,346		5,623
Equity investments	44						44
Shares in affiliates	11,478				1,344		10,134
Goodwill	28,892						28,892
Other intangible assets	22,233		354		670		21,917
Property and equipment	99,732	-368	3,617		3,964		99,017

UBS Europe SE
Notes to the financial statements as of 31 December 2017

in EUR k	Write-downs							Book values	
	Opening balance	Translation differences in opening balance	Additions	Write-ups	Disposals	Reclassifications	Closing balance	Opening balance	Closing balance
Shares and other variable-yield securities	2,844		1,545				4,389	5,125	1,234
Equity investments	33						33	11	11
Shares in affiliates								11,478	10,134
Goodwill	2,578		4,196				6,774	26,314	22,118
Other intangible assets	20,076		1,059		471		20,664	2,157	1,253
Property and equipment	77,904	-88	5,860		3,734		79,942	21,828	19,075

Equity investments pursuant to Sec. 285 No. 11 HGB

Company	Capital		Share of capital	Net income/net loss	
UBS Custody Services Netherlands B.V., Amsterdam	EUR	125,000.00	100%	EUR	0.00
UBS Fiduciaria S.p.A., Milan	EUR	860,854.40	100%	EUR	74,223.76
UBS Gestión Sociedad Gestora de Instituciones de Inversión Colectiva SA, Madrid	EUR	19,823,556.80	100%	EUR	7,115,704.55
UBS Private Equity Komplementär GmbH, Frankfurt am Main	EUR	99,319.56	100%	EUR	8,208.11

The **goodwill** stems from the acquisition of ETRA SIM S.p.A in 2005 and the Santander Private Banking Unit (SPB Unit Italia) in June 2016 by the former UBS Italia S.p.A. and was acquired at book value in the merger. The goodwill arising in connection with the acquisition of ETRA SIM S.p.A had a remaining useful life of eight years on the balance sheet date and is being amortized on a straight-line basis. The goodwill arising in connection with the acquisition of the SPB Unit Italia has a remaining useful life of six years.

Together with the sale of the Wealth Management business in the Netherlands, the two equity investments in VermogensParaplu Beheer B.V., Amsterdam, and Trustee VermogensParaplu B.V., Amsterdam, were also sold.

All of the **other intangible assets** comprise purchased software.

As of the end of fiscal year 2017, **property and equipment** exclusively comprise furniture, fixtures and office equipment.

Other assets

"Other assets" mainly include receivables from group allocations (EUR 39.1m), receivables from the tax office (EUR 58m) and variation/initial margins (EUR 282.6m).

Prepaid expenses

"Prepaid expenses" contain income from retrocession fees attributable to the next reporting period (EUR 2.3m), premiums paid (EUR 0.4m) and advance payments of non-staff operating costs (EUR 5.2m).

Other liabilities

"Other liabilities" primarily comprise liabilities from variation/initial margins (EUR 213.4m), the repatriation of equity to UBS AG (EUR 130m) in connection with the adjustment of the composition equity and liabilities, intragroup settlements (EUR 44.8m), liabilities to the tax office (EUR 28.7m) and replacement costs of assets (EUR 16.7m).

Deferred income

"Deferred income" primarily contains premiums received for the issuance of note loans (EUR 2.3m) and income received in advance in the amount of EUR 0.6m.

Provisions for pensions and similar obligations

The provisions recognized relate almost exclusively to obligations for employees of the parent company in Germany.

The following assumptions were applied in measuring provisions for pensions:

- Actuarial interest rate: 3.68%
- Salary and income threshold progression rate: 2.50%
- Pension increases: 1.50% for old commitments (issued prior to 1 January 1999)
  1.00% for new commitments
- Turnover: average 12.00%

In accordance with Sec. 253 (6) HGB, the difference arising between discounting using a 10-year average interest rate and a 7-year average interest rate has to be calculated as of the reporting date. The 7-year average discount rate with a remaining term of 15 years as published by Deutsche Bundesbank (2.80%) is used to present the comparative amounts for the purpose of calculating this difference. The resulting pension provision and deferred compensation provision amount to EUR 158.3m and EUR 102m, respectively. Applying the corresponding 10-year average interest rate with a remaining term of 15 years in the amount of 3.68%, the pension provision and the deferred compensation provision would amount to EUR 141.2m and EUR 90.3m, respectively. This leads to a difference for pensions and deferred compensation of EUR 28.8m, which may not be distributed or transferred.

Other provisions

"Other provisions" comprise the following main items:

Bonuses	EUR 51.9m
Early retirement obligations	EUR 9.1m
Restructuring	EUR 19.9m
Damages claims	EUR 26.1m
Fee reimbursement claims from retrocessions	EUR 1.9m

Subscribed capital and shares

The subscribed capital of EUR 446,001,000 (prior year: EUR 176,001,000) is divided into 446,001,000 (prior year: 35,200,200) registered shares that are wholly owned by UBS AG. The EUR 270m increase in subscribed capital is attributable to the increase in the capital stock through the appropriation of EUR 400m from the capital reserves in accordance with Sec. 272 (2) No. 1 HGB in July 2017 and a capital reduction by EUR 130m in December 2017, both in connection with measures to adjust the composition of equity and liabilities.

Capital and revenue reserves

Luxembourg tax legislation allows a reduction of the net worth tax liability if a dedicated reserve equal to five times the net worth tax liability is recognized; this reserve must not be distributed within the next five years. The non-distributable reserve is part of the capital reserves recognized in accordance with Sec. 272 (2) No. 1 HGB in the equity of UBS Europe SE; it amounts to EUR 88.1m as of 31 December 2017.

EUR 28.8m of the capital reserves pursuant to Sec. 272 (2) No. 4 HGB relates to the difference under Sec. 253 (6) HGB due to the adjustment of the discount rate (see the note on the pension provisions).

An amount of EUR 400m was withdrawn from the capital reserves pursuant to Sec. 272 (2) No. 1 HGB and allocated to capital stock.

An amount of EUR 50m was withdrawn from the capital reserves pursuant to Sec. 272 (2) No. 4 HGB and allocated to the net retained profit.

In June 2017, the entire net retained profit reported for fiscal year 2016 was distributed to the shareholder.

The revenue reserves are unchanged at EUR 46.4m.

Trust receivables and liabilities

Trust assets		
	31 Dec 2017	**31 Dec 2016**
	EUR k	EUR k
Equity investments	51,231	71,822

Trust liabilities		
	31 Dec 2017	**31 Dec 2016**
	EUR k	EUR k
Liabilities to customers	51,231	71,822

The Bank offers its customers the option of investing in private equity fund shares. The Bank concludes trust agreements with the customers to enable them to make small investments. This resulted in equity investments held in trust in the amount of the trust arrangements concluded (EUR 51.2m). The Bank does not have any trust loans on its books.

UBS Europe SE
Notes to the financial statements as of 31 December 2017

Contingent liabilities and other obligations

Contingent liabilities comprise guarantees provided. All of the other obligations are irrevocable loan commitments. There is no significant call risk.

Foreign currency assets and liabilities

Foreign currency assets totaled EUR 4,173.7m (prior year: EUR 7,114.4m), and foreign currency liabilities totaled EUR 5,542.9m (prior year: EUR 7,097.1m).

Notes to the income statement

Net interest income

Net interest income contains EUR 43m in negative interest paid and EUR 22m in negative interest received. The net expense is primarily attributable to an investment with Deutsche Bundesbank.

Negative interest of EUR 10.7m was paid to Deutsche Bundesbank as a result of euro clearing, while negative interest of EUR 10.7m was collected from the parent company UBS AG.

Net commission income

Net commission income

Custody account management	EUR	71.2m
Asset management	EUR	186.9m
Brokerage of funds	EUR	106m
Consulting on planned equity investments and mergers	EUR	34.6m
Income from sales activities (equities, bonds and certificates)	EUR	26.4m
Securities settlement	EUR	39.6m
Other commissions	EUR	37.1m
Total net commission income	**EUR**	**501.8m**

Geographical breakdown		
in EUR k	**Net interest income**	**Net commission income**
Denmark	-	2,030
Germany	-7,871	177,309
Netherlands	-1	4,298
Italy	17,900	147,195
Luxembourg	36,823	110,544
Austria	2,362	20,124
Sweden	-	944
Spain	8,160	39,334
Total UBS Europe SE	**57,373**	**501,778**

The other disclosure for fiscal year 2017 is contained in the country-specific reporting in accordance with Sec. 26a KWG [“Kreditwesengesetz”: German Banking Act].

Other operating income

This item primarily contains group allocations (EUR 60.3m), income from the sale of Wealth Management in the Netherlands (EUR 27m), income from the sale of two Dutch subsidiaries (EUR 3.6m), reversals of provisions (EUR 11.9m) and currency translation income (EUR 2.1m).

Other operating expenses

This item mainly includes payments and provision allocations in connection with customer complaints resulting in court proceedings (EUR 5.3m) and expenses of EUR 9.2m from unwinding discounts on provisions as of 31 December 2017 (thereof pension obligations of EUR 8.6m).

Other notes

Proposal for the appropriation of net retained profit

The closing balance sheet of UBS Europe SE for 2017 reports a net retained profit of EUR 138.2m.

The Management Board proposes the distribution of the full amount of the net retained profit reported as of 31 December 2017 to the shareholder. This corresponds to a dividend of EUR 0.31 per share, for 446,001,000 shares.

Other financial obligations

Other financial obligations include rent obligations for the premises used for the Bank's head office and branches. The lease agreement for its head office (the Opernturm building in Frankfurt) expires in 2025. Rent obligations until 2025 for all buildings come to EUR 131m, EUR 61.1m of which relates to the Opernturm building (UBS Group).

Derivative financial instruments:

As of the balance sheet date, transactions were pending in the following forward transaction and options transaction categories

- Foreign currency forward transactions
  - Forward exchange contracts

- Interest rate swaps

- Transactions with other price risks
  - Equity/index option contracts
  - Swaps

In the past, the Bank had issued structured financial instruments in the form of certificates and note loans. The repayable amount of these instruments is dependent on the performance of stock indices, foreign currencies or other individual securities which are embedded as derivatives in the instrument along with the underlying instrument. Until March 2016, the market risks relating to the issued instruments were fully hedged by offsetting transactions with either UBS AG, London Branch, or by notes issued by Star Compass PLC. In March 2016, the Bank restructured its hedges, selling all of the notes of Star Compass PLC and replacing them with offsetting transactions with UBS AG, London Branch. The Bank designated offsetting transactions with the UBS AG branch in London which serve to hedge repayment claims as hedges together with the instruments issued. In the Bank's financial statements, the underlying instrument and embedded derivative are reported together under securitized liabilities (certificates) or liabilities to customers/banks (note loans/registered debt securities). Hedges, which were valued using the net method, were accounted for at the issue price taking accrued interest and discounts into account. In March 2016, their issue price was adjusted to fair value for certificates originally entered into to hedge notes of Star Compass PLC and now used to hedge matching offsetting transactions with UBS AG, London Branch. The respective offsetting transactions were recognized as assets in the same amount.

Hedges

The Bank issues structured financial instruments which are offered in the form of certificates and note loans. The Bank also issues plain vanilla products, which it offers its customers as note loans and registered debt securities. For the structured products, the repayment value is linked to the performance of the underlying instruments. For the plain vanilla products, the Bank pays a fixed rate of interest. The Bank has concluded offsetting transactions with UBS AG, London Branch, to hedge its repayment and individual payment obligations under the financial instruments it has issued. The Bank uses these offsetting transactions to hedge against its entire market, foreign currency and interest rate risk from all issues. The issue positions are grouped together with the offsetting transactions to form hedges. These hedge a volume with a book value of EUR 308.6m, exclusively as micro hedges.

Hedge transactions protect against currency risks with a fair value of EUR 4.1m. In addition, hedges protect against interest rate risks with a fair value of EUR 308.2m.

The critical terms match method is used to measure the effectiveness of the micro hedges on the basis of matching components such as nominal amounts, disbursement value, maturity, interest payment dates and repayment structure in the underlying and the hedging instruments. Thanks to the recognition of hedges, changes in fair value do not pose a risk for the Bank since they do not have an effect on the Bank's earnings.

Hedged items are recognized at book value, with the offsetting transactions reported at identical amounts.

Business volume of derivatives and forward transactions:

Derivatives used as hedges for issuing transactions:

	Nominal amount	Fair value	
		pos.	neg.
	in EUR m	*in EUR m*	*in EUR m*
Equity/index swaps	40.9	0.0	50.3

UBS Europe SE
Notes to the financial statements as of 31 December 2017

Derivatives and forward transactions used in the agency business:

	Nominal amount	Fair value	
		pos.	neg.
	in EUR m	*in EUR m*	*in EUR m*
Currency transactions	31,222.5	128.3	127.1
Interest rate transactions	10,205.0	31.0	31.0
Equity/index-related transactions	10,712.0	717.6	717.6
Other transactions	87.6	0.1	0.1

Derivatives and forward transactions used in treasury:

	Nominal amount	Fair value	
		pos.	neg.
	in EUR m	*in EUR m*	*in EUR m*
Currency transactions	1,390.1	0.7	17.1
Interest rate transactions	3,783.7	0.4	0.8

Valuation models and methods

Equity/index swaps, which constitute a large part of the hedging transactions for the alternative investment products issued by the Bank, are valued using the discounted cash flow method, i.e., by discounting the cash flows from equity or index performance and interest.

It is corporate policy to hedge all financial instruments at group banks.

Contingent liabilities

There were no contingent liabilities as of 31 December 2017.

Auditor's fees

No auditor's fees need to be disclosed since they are disclosed in the consolidated financial statements of UBS AG, Zurich.

Related party disclosures

The parent company UBS AG, having its registered office in Zurich, UBS Group AG and all not fully consolidated companies, joint ventures and associates of the UBS Group were identified as related parties of UBS Europe SE.

Persons related to key management personnel (members of the Management Board, general managers and Supervisory Board members) of the UBS Group, UBS AG in Zurich and UBS Europe SE are treated as related parties.

The following financial transactions are performed with related parties (group companies only):

- Money market transactions, investing in and raising funds
- Forward transactions in equities, foreign currency, bonds and structured products
- Options in equities, bonds and foreign currency
- Equity and interest rate swaps
- Securities lending
- Securities transactions (reverse repos)
- Guarantees
- Procurement/provision of intragroup services

All transactions were concluded at arm's length.

Significant events after the balance sheet date

In January 2018, UBS Europe SE announced that it was going to take over some parts of Nordea Bank S.A.'s private banking business in Luxembourg. The transaction is expected to be closed in the second half of 2018, depending on obtaining relevant approvals and on other customary terms and conditions.

Otherwise, the Bank is not aware of any significant events occurring after the end of the fiscal year which have not been taken into account in the balance sheet or income statement.

Liquidity

Total liquidity, which represents the ratio of the readily realizable assets (asset items from cash on hand to amounts due from customers with a term of less than three months) to liabilities to banks and customers with a term of less than three months, was 83.81% as of the balance sheet date.

Group affiliation

UBS Europe SE is included in the basis of consolidation of UBS Group AG, Zurich. In accordance with the KonBefrV ["Konzernabschlussbefreiungsverordnung"]: German Ordinance on the Exemption from Preparation of Consolidated Financial Statements], UBS Europe SE therefore opts not to prepare subgroup consolidated financial statements.

UBS Group AG, Zurich, prepares exempting consolidated financial statements and a Group management report. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). These are the consolidated financial statements for the largest group of companies. The consolidated financial statements and the Group management report for 2017 of UBS Group AG, Zurich, are available on the UBS website and are published in German in the *elektronischer Bundesanzeiger* [Electronic German Federal Gazette] by UBS Beteiligungs-GmbH & Co. KG, Frankfurt am Main. In addition, UBS Europe SE is included in the consolidated financial statements of UBS AG, Zurich, which are also prepared in accordance with IFRSs. These are the consolidated financial statements for the smallest group of companies. The consolidated financial statements of UBS AG, Zurich, are available on the UBS website.

UBS Europe SE
Notes to the financial statements as of 31 December 2017

Disclosure

The disclosure report for the year ended 31 December 2017 is published on the UBS Europe SE website at https://www.ubs.com/de/de/ubsgermany/finanzberichteundmitteilungen.html.

Governing bodies

Supervisory Board

- Roland Koch, Chairman
  Independent attorney, Former Prime Minister of the State of Hesse, Frankfurt
- Jakob Stott, Deputy Chairman,
  Divisional Vice Chairman Wealth Management, UBS Switzerland AG, Zurich
- Silke Alberts*, Chairman of the Works Council, UBS Europe SE, Frankfurt
- Dr. Ulrich Körner, President Asset Management and President Europe, Middle East and Africa, UBS AG, Zurich
- Jean-Marc Lehnertz*, IPS Content Management & Portfolio Management Asset Servicing, Luxembourg
- Emma Molvidson, Chief of Staff President Investment Bank, UBS AG, Zurich
- Francesco Stumpo*, Wealth Management IT Application Delivery,
  UBS Europe SE, Milan
- Tanja Weiher, Chief of Staff to the Group CEO, UBS AG, Zürich
- Dr. Martin Wittig, General Manager and Chief Executive Officer mcw Management Services AG, Silvaplana

*Employee representatives

In accordance with the resolution of the Annual General Meeting dated 6 June 2017, remuneration totaling EUR 31k was paid to the employee representatives on the Supervisory Board in the fiscal year. Remuneration totaling EUR 308k was paid to the independent members of the Supervisory Board.

Management Board

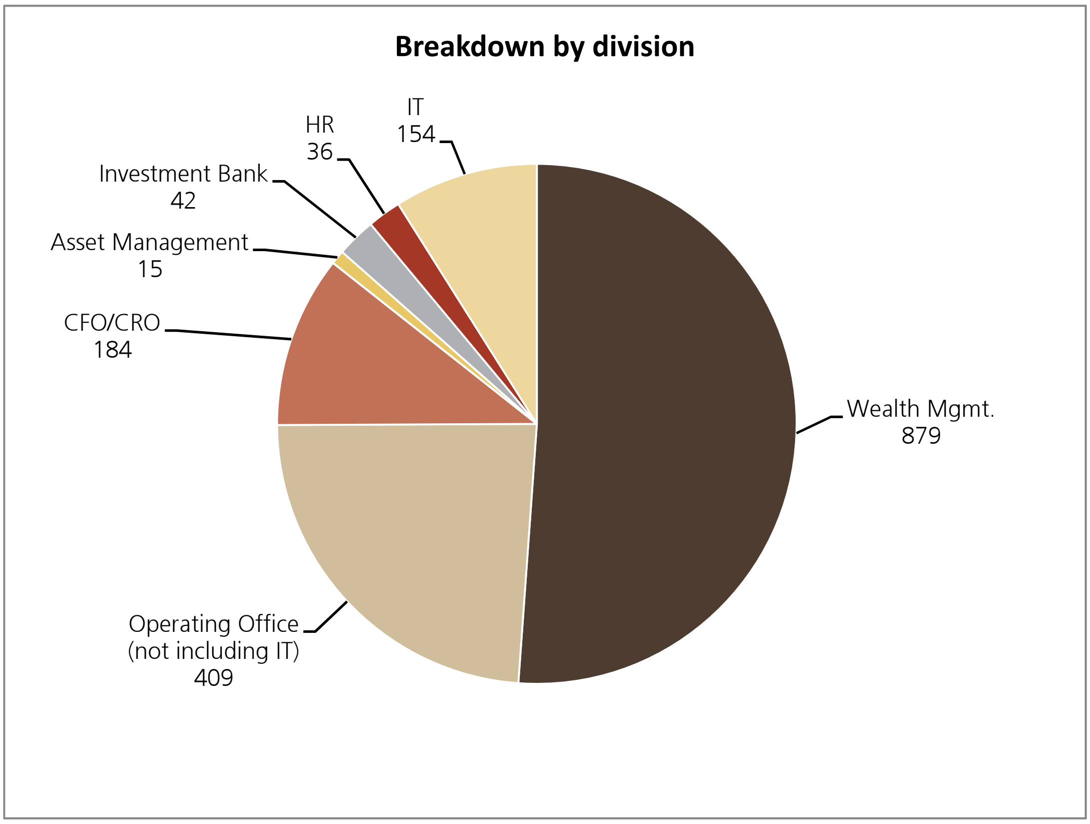
- Thomas Rodermann, Spokesman of the Board, Market Head Germany, Austria and Nordics
- Birgit Dietl-Benzin, Chief Risk Officer
- Fabio Innocenzi, Market Head Italy and Iberia
- René Mottas, Market Head Luxembourg and Netherlands
- Dr. Andreas Przewloka, Chief Operating Officer
- Stefan M. Winter, Head Investment Bank Germany

Remuneration for the members of the Management Board amounted to EUR 8.6m in the fiscal year. This amount includes the basic salary, variable remuneration and other remuneration components.

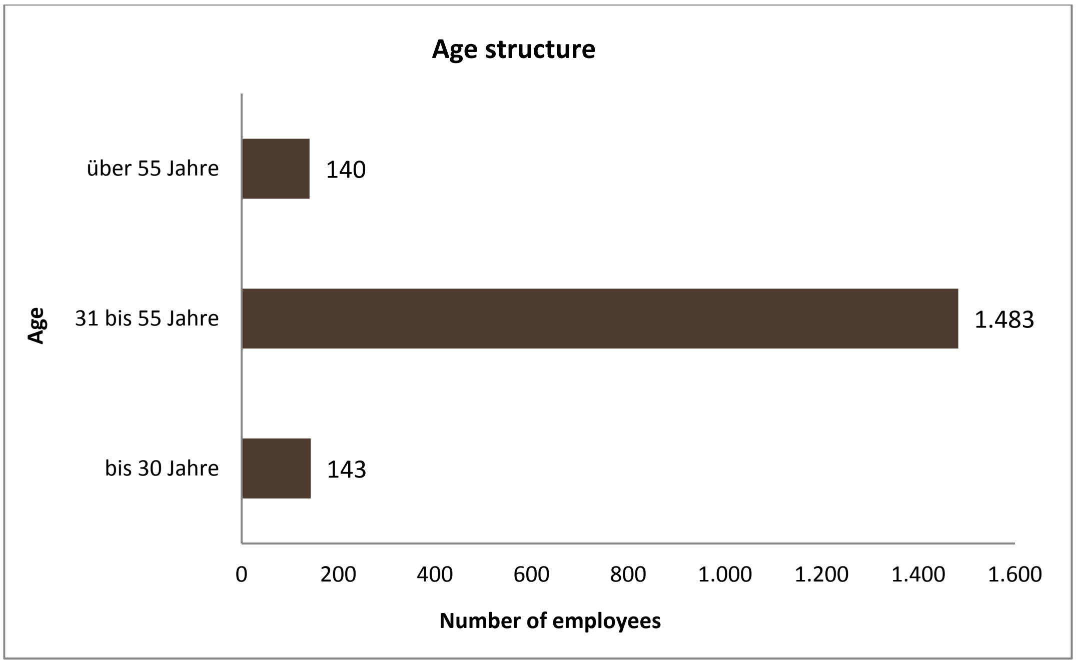
EUR 2.5m was paid to former members of the Management Board, i.e., members of the former UBS Deutschland AG and their survivors; the pension provisions for this group were EUR 35,742k on 31 December 2017.

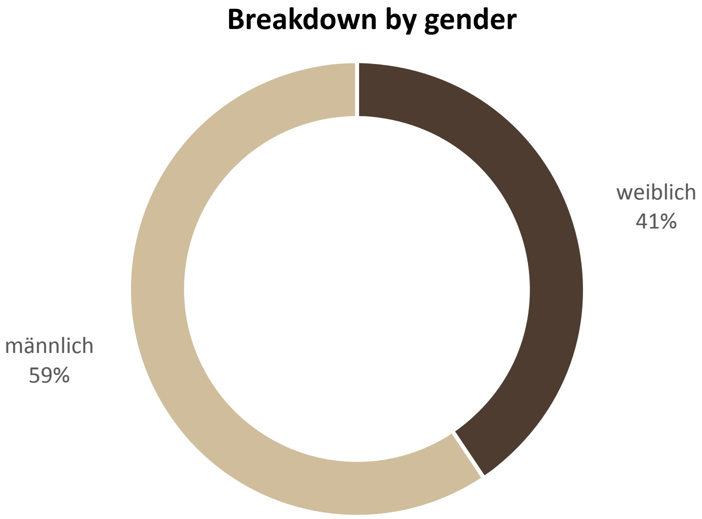
Employees

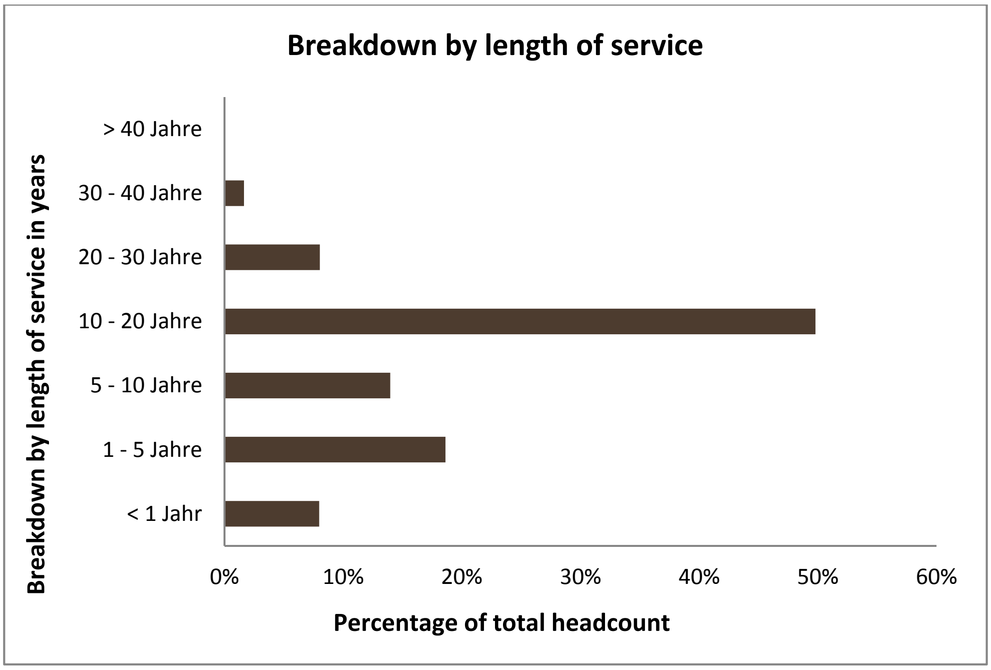
As of 31 December 2017, the headcount was 1,719. There was an average of 1,766 employees during 2017. 30 employees were on parental leave as of 31 December 2017.



UBS Europe SE
Notes to the financial statements as of 31 December 2017




Breakdown by gender
weiblich
41%
männlich
59%


Breakdown by length of service
> 40 Jahre
30 - 40 Jahre
20 - 30 Jahre
10 - 20 Jahre
5 - 10 Jahre
1 - 5 Jahre
< 1 Jahr
Breakdown by length of service in years
0%
10%
20%
30%
40%
50%
60%
Percentage of total headcount

Frankfurt am Main, 26 April 2018

UBS Europe SE

Thomas Rodermann	Birgit Dietl-Benzin	Fabio Innocenzi
René Mottas	Dr. Andreas Przewloka	Stefan M. Winter

Other disclosures in accordance with Sec. 26a (1) Sentences 2 and 4 KWG ("Kreditwesengesetz": German Banking Act) for fiscal year 2017 (Arts. 89 and 90 of Directive 2013/36/EU)

Counrty-by-Country Reporting (Sec. 26a (1) Sentence 2 KWG))

1. UBS Europe SE is included in the scope of consolidation of UBS Group AG, Zurich.
UBS Group AG, Zurich, prepared exempting consolidated financial statements. These are available at UBS Europe SE and are published by UBS Beteiligungs-GmbH & Co. KG, Frankfurt am Main, in German language in the Electronic Federal Gazette ("elektronischer Bundesanzeiger").
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB).

2. UBS Europe SE has forreign branches in the following locations:

- Copenhagen, Denmark
- Amsterdam, Netherlands
- Milan, Italy
- Luxembourg, Luxembourg
- Vienna, Austria
- Stockholm, Sweden
- Madrid, Spain

3. UBS Europe SE offers the following key services:

- Wealth Management und -advice for private customers
- Custody Business (including its custodian bank function)
- Distribution of funds
- Consultancy in Mergers and Acquistions
- Research for German equities
- Issuance of certificates, promissory note loans and registered bonds

4. UBS Europe SE generated a revenue of EUR 677.580 k. This amount includes the following components:

- Net interest income
- Net commission income
- Current income
- Trading income
- Other operting income

Country-by-Country information is provided on a gross basis (i.e. before the expensing of borrowing costs between branches).

Revenue	in EUR k
Denmark	2.053
Germany	212.736
Netherlands	39.198
Italy	174.090
Luxembourg	169.441
Austria	23.511
Sweden	924
Spain	59.507
Total UBS Europe SE	**681.460**

5. The average number of employees in full-time equivalents was 1.663 in 2017.

Number of employees	
Denmark	7
Germany	552
Netherlands	0
Italy	458
Luxembourg	359
Austria	56
Sweden	5
Spain	226
Total UBS Europe SE	**1.663**

6. Net profit before taxes on profit and loss amounts to EUR 125.543 k and the taxes on profit and loss were EUR 37.352 k.

in EUR k	Result before taxes on profit and loss	Taxes on profit and loss	**Result after taxes on profit and loss**
Denmark	-1.503	0	**-1.503**
Germany	-36.456	0	**-36.456**
Germany excluding UBS Europe SE Treasury	-9.028	0	**-9.028**
Netherlands	29.741	5.761	**23.980**
Italy	52.728	14.402	**38.326**
Luxembourg	67.359	16.676	**50.683**
Austria	7.901	474	**7.427**
Sweden	-1.325	0	**-1.325**
Spain	7.098	39	**7.059**
Total UBS Europe SE	**125.543**	**37.352**	**88.191**

7. UBS Europe SE did not receive any public subsidies in the reporting year.

Disclosure of return on capital (Sec. 26a (1) Sentence 4 KWG)

Return on capital (as the ratio of net profit by total assets) for UBS Europe SE is 0,50%.

UBS Europe SE
Annual Report 2017 – Management Report

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I. Business Report

Divisions and organization

The consolidation of WM subsidiaries into a single pan-European entity was conducted in 2016 and went successfully live on 1 December 2016 with the new formed UBS Europe SE, which is now a reality with all its branches fully operational.

The bank is a direct, one hundred percent subsidiary of UBS AG, Zurich. Its organizational structure is based on the former structure of UBS Deutschland AG, comprising the three divisions Wealth Management (WM), Investment Bank (IB) and Asset Management (AM) with its sales function.

Throughout 2017, the entity has consolidated its governance structure while developing its business in a sustainable manner.

As a universal bank within the meaning of the German Banking Act (KWG) and as an SE under European law, its administrative bodies are the Management Board, Supervisory Board (incl. Committees) and Annual General Meeting. Governance structure has been reinforced this year having all functions in place, with reporting lines defined and harmonized within the entity. Key Governance documents like Governance Manual and a Delegation of Authorities and Policy Framework and policies implemented.

On the WM business side and throughout 2017 the entity has accomplished various transactions oriented to focus and reinforce its presence in its core markets.

UBS Europe SE's Netherlands business was sold to Van Lanschot Kempen August 25th.

On January 25th 2018, UBS Europe SE announced that it has entered into an agreement to acquire a part of Nordea’s Luxembourg-based private banking business. The transaction is currently expected to close in the second half of 2018, subject to relevant approvals and other customary conditions. The business that UBS Europe SE expects to acquire manages assets of approximately EUR 13 billion as of 31st December 2017.

With regards to the asset management activities performed in Germany within UBS Europe SE, the business has been shifted into Asset Management (Deutschland) GmbH as of 1st August, 2017.

UBS Europe SE keeps **Wealth Management** as its core business, for Ultra High Net Worth (UHNW) clients including Family Offices, High Net Worth (HNW) and Affluent client segments within the European Union. The Financial Intermediaries (FIM) client segment supports UBS Europe SE’s business by providing access to markets and clients beyond the bank’s client advisor network. Geographically, the Wealth Management division encompasses eight countries with a total of 26 branches in Europe. In Germany, Luxembourg, Italy, Spain and Austria UBS Europe SE also acts as a strategic business partner for financial intermediaries.

The **Investment Bank** structure of UBS Europe SE is based on the former Investment Bank structure of UBS Deutschland AG, being this activity exclusively performed in Germany. At its core, the Investment Bank is divided into two independent and aligned business units: Corporate Client Solutions (CCS) and Investor Client Services (ICS).

CCS comprises the entire business in consulting and financing solutions, origination, structuring and clearing, including capital markets (equities and bonds as well as leveraged finance) for corporate clients, financial institutions and sponsors, as well as Family Offices and Institutional Wealth Management clients. It also incorporates Mergers and Acquisitions.

Investor Client Services (ICS) includes clearing, distribution and trading for institutional investors, supporting both Corporate Client Solutions and the Wealth Management business of UBS. This unit also involves other business activities in the field of equities, including cash, derivatives and research expertise covering various asset classes, along with our Foreign Exchange, Rates and Credit (FRC) business. FRC focuses on institutional clients, from the fund and insurance sector to other financial institutions.

In addition to the two core units of the Investment Bank division, Corporate and Institutional Clients (CIC) is responsible for maintaining and expanding the local product offering for Cash Management Solutions and, by cooperating closely with other CIC teams across the international UBS network, allowing UBS to offer its global expertise to clients in Europe.

Overall, the Investment Bank division assumes a sales-and distribution function for the mentioned services and products. For UBS Europe SE no risks arise from these transactions as new business is reflected comprehensively on the balance sheet of UBS AG. For its sales activities the bank receives its proportionate share of income.

A Distribution Department of **Asset Management** is located within UBS Europe SE in Austria, Luxembourg and Spain.

UBS Europe SE offers asset management services to (I) Institutional investors such as insurance companies, pension funds, companies, pension insurance carriers, church institutions and foundations, (II) Wholesale clients (banks, savings banks and other financial service providers) and (III) UBS Wealth Management clients.

Value proposition

Our value proposition is based on a sustainable client performance and allows us to establish successful long-term relationships with our clients, based on mutual trust while strictly implementing regulatory requirements.

Our focus is on the positioning of our expertise as a leading holistic wealth advisor, our products and services, and on UBS as a "thought leader" and on topics such as digitalization and innovation. We continue to successfully position the key messages of the bank, including once again our capital strength, our solvency and our client centric driven strategy.

We aim to expand our presence in Europe as the UBS home market over the long term. In all of our business activities we want to be one of the market leaders and the first choice among our target clients based on our 4-pillar UBS Europe SE value proposition: (I) Global strength, (II) local roots, (III) cross- divisional collaboration and (IV) superior investment advice & research.

Strategy

Our strategy is centered on our leading wealth management businesses in Europe, which are enhanced by Asset Management and the Investment Bank. We focus on businesses that have a strong competitive position in their targeted markets, are capital efficient, and have an attractive long-term structural growth or profitability outlook. Our wealth management businesses benefit from significant scale in an industry with attractive growth prospects, increasingly high barriers to entry, and their leading position across the attractive high net worth and ultra-high net worth client segments. The partnership between our wealth management businesses and our other businesses is a key differentiating factor and a source of competitive advantage.

With regards **Wealth Management**, our ambition is (I) To grow our traditional and core business through focused and disciplined execution of our strategic levers and priorities, (II) Make a fundamental shift towards embedded risk culture and management, (III) Gain efficiency by the expansion of scalable operating platform, (IV) Developing the best talent.

A series of priorities aimed to deliver the goals above have been defined: (I) Focus on profitable growth, enhancing our focus on HNWI; becoming the bank of choice for our UHNW clients, developing affluent specific market strategy with distinct focus on growth markets while fostering digitalization and maintaining FIM business growth momentum, (II) Expand our footprint across Europe, (III) Expand scalable operating platform to consolidate our competitive advantage to on board new assets at industry leading marginal costs and to tap new sources of growth, (IV) Talent retention and development.

The **Investment Bank** aspires to provide best-in-class services and solutions to our corporate, institutional and wealth management clients, through an integrated, solutions-led approach, driven by our intellectual capital and leveraging our award-winning electronic platforms. The IB's focus remains on its traditional strengths in advisory, capital markets, equities and foreign exchange businesses, complemented by a rates and credit platform, to deliver attractive and sustainable risk-adjusted returns. Using their powerful research and technology capabilities, the IB pioneers integrated solutions to support their clients as they adapt to evolving market structures, driven by changes to the regulatory, technological and economic landscape.

The entity priorities with this respect are: (I) Expansion of our position as one of the leading foreign investment banks in co-operation with UBS Ltd. in Germany in all business segments, (II) Ensuring professional advisory and tailor-made solutions within the framework of focusing on our core activities in the advisory business and our leading position in the equity and foreign exchange sector, (III) Expansion of the corporate client business in Germany and Austria, (IV) Improvement in the public perception of the Investment Bank in Germany and Austria, (V) Intensification of cross-divisional cooperation with Wealth Management and Asset Management to exploit new business opportunities.

In the Investment Bank the focus is on a significant increase in the turnover base and the expansion of the market position in Europe by focusing on our core competencies and expanding the relationships with our top clients, based on a successfully completed strategic transformation. The development in 2018 and 2019 will depend on further developments of the market, possible organizational changes as well as the success of initiatives executed within the Cross Business Collaboration. The Brexit decision in UK has added uncertainty for our business and the European business set-up will require changes.

Strategy on the **Asset Management** side is based on (I) positioning UBS Europe SE as one of the leading international Asset Managers within the realm of the bank (Top 5), (II) Expansion of the market share in the institutional and wholesale business respectively, (III) Consolidation of our status as a preferred partner of Wealth Management, (IV) Increasing profitability.

Cross-divisional collaboration between the various segments and markets in Wealth Management, and the business divisions of the Investment Bank and Asset Management is essential. In order to determine the optimal solution for our clients, we make use of the expertise from all three divisions, selecting the most suitable products and services from each. Owing to our size, we are able to scale the services in all divisions of the company and offer them not only to institutional, but also to our private clients, especially in the UHNW segment.

Across all divisions and hierarchical levels **efficiency and cost management** are integral parts of our strategy, in particular against the background of the ever-increasing pressure on margins. We will focus on cost initiatives that won't compromise our customers' experience, but help us to improve our service quality and make internal processes more efficient.

Beyond the mere standardization of processes and services, **digitalization** is taking on major significance as part of our growth strategy. Above all, this is justified by changed client behavior and an increased demand for digital banking services

Management systems

The Bank's management systems comprise of financial and regulatory reporting systems.

Planning for the legal entity, UBS Europe SE, is performed on an annual basis and covers a period of three years. The plan is based on group reporting systems and is broken down by branch and by division.

For WM the legal entity plan is based on the divisional targets for revenues, costs, head count and growth of Net New Money.

For Other divisions the planning is based on a backward looking view and adjusted for known items.

Any known cost or revenue items are taken into account for the planning.

The key **reporting system** is the cost center accounting system (web-based standard reporting system "DOMINO"). The DOMINO reporting system focuses on the following figures for the last three (up to 23) months of the current year and the same prior-year period: Managed assets, net inflows/outflows of customer funds, costs, income broken down by type and product, margins, number of front office and support staff and number of customers. The above mentioned indicators are also reported in relative terms such as income per customer advisor or cost-income ratio.

II. Economic Report

Financial performance indicators

Our key financial performance indicators (KPIs) are aligned with our business objectives, focusing on the drivers of direct increases in efficiency and profitability. Hence, all levels of divisions' functional organizational structure (segment, location and team level) are covered.

The following performance indicators, are analyzed on a monthly basis:

- Cost/income ratio: The financial year 2017 resulted in EUR 679m revenues and EUR 552m cost. The cost/income ratio of 81% was lower than the plan of 91%, so the target has been outperformed.

- Profit before taxes per division and per location: The bank discloses the profit before taxes per division and per location at the internal management information system. Compared to previous year, all major branches increased their result (Spain + 39%, Luxembourg and Germany + 33%, Italy + 23% and Austria + 15%).
- Net inflow of funds (Net New Money): The Net New Money for 2017 was planned slightly above EUR 6bn. The bank was able to significantly exceed this target by almost 200%. The majority of these Net New Money inflows were achieved in the branches in Luxembourg, Germany and Italy. In general all branches have clearly or very clearly exceeded their target.
- Return on Assets (margin on invested assets): In the wealth management business segment, the profitability of the invested assets is expressed by the Return on Assets ratio. The invested assets increased by 8% and the respective revenues by 7%. Accordingly, the margin has changed only very slightly due to a disproportionate growth in less profitable segments.
- Head count development of front and support functions: As part of its efficiency program, the bank reduced the number of employees, but followed a different strategy for employees with direct client contact. The support staff per client advisor ratio has been reduced from 0.54 in 2016 to 0.50 in 2017.

Non-financial performance indicators

The performance of UBS Europe SE cannot be measured using financial indicators alone. Our competitiveness and target achievement are largely – as with every service company – dependent on the quality of our employees. Therefore we actively promote staff commitment, qualification and performance. Employee satisfaction is measured in group-wide employee surveys on a regular basis in 2017 in March and September. The results of the employee satisfaction surveys which are of relevance for the German head office and the branches, are analyzed by the senior management. The Employees are informed of positive aspects and areas in need of improvement. Corresponding measures are developed and implemented accordingly.

In the course of the group-wide cost efficiency effort – mainly in the mid and back offices – the defined restructuring measures especially related to personnel, have been implemented during the year. When defining the related personnel measures, available resources in the units were reviewed and adapted to the relevant volumes and core areas.

The level of staff turnover at UBS Europe SE was 16.5 % overall and varied between 0 % in Sweden and approximately 29.6 % in Denmark and 22.2 % in Germany. The average length of service of permanent employees is approximately 11.6 years, showing the shortest length of service in Denmark with 2.7 years and the longest in Luxembourg with 12.1 years. To avoid a high level of staff turnover among top performers, individual staff retention measures have been agreed and implemented.

Disregarding the mentioned efficiency measures including the implementation of the redundancy initiative for mid and back office out of 2016 our strategic focus were geared towards the hiring of client advisors. Recruiting first-class professionals in all areas of the entity as well as hiring and developing young talents, enable us to strengthen our organization and increase the diversity of our workforce. UBS is particularly concerned with the promotion of women in management positions both globally and locally. To support these efforts the focus lies on:

- Working towards an inclusive and diverse organizational culture as a general means of achieving sustainable performance.
- Fostering meritocracy, performance and objective and fair assessments.

Currently the ratio of women to men in the UBS ESE supervisory board is one third. Therewith, the female representation of minimum 30% is achieved.
Female Management Board representation is still at 12.5% but it is envisaged to increase this ratio to 28.6% to 71.4% within 2018.

In addition UBS Europe SE addresses diversity goals by local measures. The branch in Italy, for example, has developed a Diversity and Inclusion (D&I) program that includes both training plans and specific initiatives aimed at creating an inclusive corporate culture. Dedicated D&I Ambassadors have been nominated to support the bank in the design of the D&I strategic initiatives. A Group-wide initiative "The Power of Perspectives" was piloted in Germany in 2017 (after successful Pilot in Italy) and is planned to be rolled out in 2018 in the country. The Power of Perspectives program impacts the effort to change corporate culture by increasing awareness of personal biases in order to obtain conscious decision making and better business results.

The branch in Luxembourg, as another example, is a member of the Diversity Working Group of Luxembourg's Banking Association (ABBL) and the former UBS (Luxembourg) S.A. signed the "Charte de la diversité Lëtzebuerg".

The above mentioned goals have also been incorporated into human resource processes. In this context, UBS Europe SE in particular supports work-family balance through (depending on location) promoting part-time work, bank funding of childcare provided in association with cooperation partners and occupational reintegration management. The latter consists in that employee on long-term absence (e.g. maternity leave) enjoy maintenance of their roles and coverage with the current workforce, fix-term contracts or secondments. Furthermore, an integrated local occupational health management program (e.g. health checks) is in place to foster the long-term performance of employees in an ever-changing working environment.

In 2017 UBS Group conducted a worldwide health day on November 6th, followed by various Health initiatives actions in various UBS ESE locations.

The encouragement of Diversity and Inclusion (also in terms of the German Transparency of Remuneration Act §21 EntgTranspG) will be supported in addition of several Measures varies in the different countries throughout UBS Europe SE also depending on the location size e.g. Germany offers 30 childcare spaces for children under three years and ten Kindergarten places for children aged between three and six.

In an effort to adapt even more to today's environment, UBS in Italy developed a pilot with regards to "agile work", that allows employees to work in a more flexible and innovative way from home. This is having a positive impact on work-life balance, an index that UBS is regularly monitoring in the internal employees survey. As of January 2018 Germany will implement the "Agile Working Initiative" which was already prepared in 2017.

Pursuant to Article 76 (4) and § 111 (4) AktG ("Aktiengesetz": German Stock Cooperation Act) in conjunction with the FührposGleichberG ("German Act on the Equal Participation of Women and Men in Management Positions"), in 2015 the predecessor of UBS Europe SE (UBS Deutschland AG) defined targets for the ratio of female employees on the Supervisory Board, the Management Board and in the two management levels below the Management Board. The Europe SE Supervisory Board defined a target quota for women in the Management Board of 20%, the quota of women in the Supervisory Board, which was set at 33% before was kept at this level. The Management Board has maintained the former quota of 27% for women in the first management level below Management Board, regarding the second management level an increase from 7% to 20% has been agreed. Currently UBS Europe SE has a ratio of women to men in the Supervisory Board of one third to two thirds. Management Board representation is 1 to 5 but will increase this ratio to 2 to 5 in 2018.

A new Mentoring Initiative was piloted in Germany for all new Joiners. Local Management Committee members act as Mentors with very positive feedback.

In recognition of its Corporate Social Responsibility (CSR), UBS Europe SE also actively engages in local community work. One example of such is the Community Affairs Working Group in Italy. The latter has developed a convincing program that achieved excellent results in the local community, in particular in the fields of education, employability and social inclusion. The UBS teams involved have used their collective expertise to select partners, recruit volunteers among UBS employees and tackle some of the current major educational, employment and social issues. The community affairs activity is recognized both at country level and at international UBS level, among others in the form of specific awards. Germany also conducted several initiatives in the fields of youth / education (e.g. professional orientation program for pupils), social entrepreneurship as well as charity runs with more than 229 volunteers and more than 720 volunteer hours.

UBS AG has issued a separate non-financial group report and published it in accordance with Article 114 WpHG. The report contains a consolidated Global Reporting Initiative (GRI) document, providing comprehensive disclosures on environmental, social and governance (ESG) factors and including the disclosures on non-financial information required by German law implementing the EU directive 2014/95 (CSR-Richtlinie-Umsetzungsgesetz / CSR-RUG). The GRI document is available in English under "Annual reporting" at www.ubs.com/investors. UBS Europe SE is therefore exempted from the issuance of a non-financial report in accordance with Article 289b HGB and refers to the GRI document for details on the mentioned subjects.

Overall economic environment

Global economy has been performing around its potential and slightly above its long term trend in 2017, accelerating due to a strong come back on commodity prices and a solid investment cycle in China, driven by construction and property sectors. In the US, Shale Sector drove back up investments and gave a solid support to economic activity, and macro figures look healthy despite the natural disasters suffered in the last months. In the Eurozone, many political issues faded and gave more visibility to the economic landscape, favouring a sharp improvement in many confidence indicators. By the moment, Brexit talks and a rising probability of a snap election in Italy remain as the main unknowns in the political field. Although some of these drivers will lose steam in the fore coming quarters, especially those related to commodity prices and property in China, we expect private consumption and non-energy related investments to take over and maintain the actual growth rate along 2018. Some emerging economies, such as Brazil, India or Russia have the potential to be considered as upside risk factors on global growth.

Regarding inflation, despite a transitory weakness in US core inflation, it is expected a rising trend globally even at a slow pace. Wage pressures seem to be starting to bloom in relevant regions like Japan or Central Europe; despite that, it is not expected a sharp increase in headline inflation in 2018 and 2019, because in one hand, a large slack still remain in many economies and labour markets around the world, and on the other hand, we expect oil prices to stabilize around current levels or slightly below in 2018. This scenario should allow Central Banks, leaded by the Federal Reserve, to keep on gently reversing hyper accommodative monetary policy in the coming quarters. Fed may hike its benchmark rate in 2018 to a level of 1,75%, and the ECB to continue reducing its bond purchasing program, bringing it to a close by September 2018. Only after that, first hikes in depo rates can be forecasted by the first months of 2019. It's not foreseen the Bank of Japan to take any relevant monetary decision in 2018.

So, as this mid-cycle scenario matures, we expect monetary normalization and rising rates around the world in our base scenario, but none affecting in a relevant manner to global growth or corporate earnings. UBS forecasts a 3,8% global growth rate in 2018. The largest downside risks to this scenario are a failure of non-energy related investment to pick up, a rapid fading of slack in labour markets around the world forcing a sharp reprice of inflation rates and thus accelerating monetary normalization, and rising political worries coming from geopolitical issues or a failure to implement fiscal stimulus in the US.

Business in 2017

The European Wealth Management market is undergoing fundamental structural changes with significant implications for the bank (e.g. customer protection, MiFID II, regulatory changes, pressure from local regulators, technological change). As the internationally divided entity structure was likely to limit inorganic growth opportunities and the possibility to gain cross-divisional efficiencies, the decision to consolidate and optimize our entity structure allowed us to focus on delivering an "onshore" experience to our Wealth Management (WM) clients, combined with easy market access for all businesses across all the European Economic Area (EEA) countries.

In 2017, UBS' **Wealth Management** Division has witnessed strong assets growth resulting from a good year of market performance and solid net new money (NNM) growth across all branches. Costs have been strictly monitored at all levels which has turned into increased Profit Before Tax levels.
Preparation for MiFID 2 implementation has been a common factor across all industry.

Although UBS Europe SE's market environment faces increasing competition, with its EUR 123 bn of assets under management, the bank remains one of the leading globally active wealth managers in the region. Accordingly, the prognoses of the bank concerning a positive development of its core business, the Wealth Management, were proven correct. Hence, UBS Europe SE strengthened its revenue base through the acquisition of new customers and additions to stocked assets by existing customers.

Expectations regarding the generation of new business and customer acquisition are due to their fusion not directly comparable to the actual business performance of the year. However, the bank recorded business growth and was therefore able to meet its goals.

Investor Client Services (ICS)
In Cash Equities, we have a competitive advantage over foreign banks due to our local presence with sales specialists, supported by local research experts in Frankfurt, while at the same time being able to access the global expertise of UBS Investment Bank.

In Equity Derivatives, we focus on high potential institutional clients, especially pension funds and insurance companies, with an interest in fund linked products and long-term options, which we consider to have attractive growth potential. In the retail segment, we focus on the expansion of our Public Distribution platform with new payout profiles and the addition of an increasing offering of underlying securities. For Financial Intermediaries, the priorities are active structured investment solutions and wrapped solutions.

We have integrated Debt Capital Markets (DCM) more strongly into structured solutions business and are expanding the rate flows business using structured derivatives, private placements (callable/plain), new issues and priority transactions which do not have a significant impact on our balance sheet. Furthermore, throughout the course of 2017, the Solution Team has successfully completed a number of significant structured finance transactions. For institutional clients, the focus is on Euro denominated structured investment solutions with a positive yield expectation.

Corporate Client Solutions (CCS)

CCS Germany has had a strong year in 2017, with total revenues significantly up from the year before. Performance has been strong in particular across M&A, ECMG and LCM and stable in connection with DCM. In summary, the following highlights during 2017 are worth noting:

Our M&A franchise developed positively with a particular focus on executing successful transactions like the disposal of the traditional lamps business for Osram, where UBS acted as sole financial adviser and the successful defense mandate UBS executed on a sole basis for both Braas Monier and Pfeiffer Vacuum. In addition, UBS supported Cinven & Bain in its public offer for Stada, one of the largest public situations seen in Germany for a period of time.

ECMG delivered another strong year in Germany, where UBS acted as Joint Bookrunner on the IPO of Delivery Hero and Bawag, and executed a number of accelerated bookbuild offerings for among other Bayer in connection with Covestro, Aroundtown and Orion for triton. Further, UBS successfully placed another exchangeable note into Evonik on behalf of RAG Stiftung. In connection with our Strategic Equity Solutions business, UBS' strong equity platform enabled the continuation of delivering tailored equity solutions to our core client franchise with focus on structured share buybacks and margin loan solutions.

LCM continues to be a key growth area, besides M&A, for CCS Germany. In 2017 UBS supported the LBO financing of a number of transactions in the German market, among other the LBO of Stada on behalf of Cinven & Bain, where we acted as Lead Arranger.

Finally, our DCM business developed in a stable manner and remains a small, but important business within CCS focused on few lending clients where we deliver DCM support as well as a bigger and broader DCM business where UBS delivers innovative and tailored solutions to our Financial institution clients.

In spite of the demanding market environment, the **Asset Management** division achieved a very good result in 2017. Over the course of the year, positive net inflows of EUR 2.1 bn were recorded across various asset classes with strong inflows by Wholesale Distribution (including ETFs) and Wealth

Management Distribution. As of the end of 2017, assets in excess of EUR 20 bn were managed for institutional investors and in the retail fund business in the Asset Management division in Germany. As predicted by the forecast, managed assets grew moderately.

Rating

UBS Europe SE was not rated on a stand-alone basis as the parent company UBS AG is rated by the three major rating agencies.

Financial position

Net assets

The bank's net assets are in order.

The balance sheet total decreased to EUR 17.8 bn for the current year (prior year: EUR 29 bn) The decrease mainly results from a substantial reduction of intercompany receivables from and liabilities to UBS AG. The grounds for this development were the implementation of a local Treasury model with local Liquidity and Interest Risk Management as well as the reduction of the surplus from Euro-Clearing activities of EUR 3.6 bn derived from the Euro-Clearing of UBS AG which remains on the account of UBS Europe SE held at Deutsche Bundesbank.

Key items were receivables from credit institutions (37 % of total assets), customer receivables (29 %) and reserves with central banks (24 %). Further items affecting net assets are described below.

Cash reserve

As of the balance sheet date 2017, the credit balance with central banks was EUR 4.3 bn (prior year: EUR 4.1 bn), thereof EUR 4.2 bn (prior year: EUR 3.9 bn) with Deutsche Bundesbank. This represents an increase of EUR 0.2 bn with regard to the cash reserve as of 31st of December 2016.

Receivables from credit institutions and customers

Total receivables decreased by EUR 10 bn compared to the previous year. The deposit facility with the Deutsche Bundesbank decreased by EUR 4.6 bn, because the liquidity was left on the current account with Deutsche Bundesbank and is disclosed under cash reserve.

	31/12/2017	31/12/2016	Change	
	m. EUR	m. EUR	m. EUR	%
Receivables from credit institutions	6,543	16,595	-10,052	-60.6%
Receivables from customers	5,248	5,207	41	0.8%
Total Receivables	**11,791**	**21,802**	**-10,011**	**-45.9%**

Liabilities to credit institutions and customers

Total liabilities decreased by EUR 10.9 bn compared to the prior-year value.

The decrease is mainly due to the reduction of intercompany receivables and liabilities with UBS AG in the course of the optimization of the balance sheet.

	31/12/2017	31/12/2016	Change	
	m. EUR	m. EUR	m. EUR	%
Liabilities to credit institutions	1,246	10,916	-9,670	-88.6%
Liabilities to customers	14,461	15,727	-1,266	-8.0%
Securitized liabilities	5	5	0	0.0%
Total liabilities	**15,712**	**26,648**	**-10,936**	**-41.0%**

Receivables and liabilities according to geographical source

in m. EUR 31.12.2017	Total	Denmark	Germany	Netherlands	Italy	Luxembourg	Austria	Sweden	Spain
Receivables from credit institutions	**6.543**	1	5.966	1	13	517	29	1	15
Receivables from customers	**5.248**	-	990	-	2.037	1.099	209	-	913
Liabilities to credit institutions	**1.246**	-	1.019	-	65	153	3	-	6
Liabilities to customers	**14.461**	-	3.631	-	3.237	6.249	350	-	994

Securities

In the course of the implementation of a local Treasury model Securities decreased by EUR 1,3 bn to EUR 1,1 bn.

	31/12/2017	31/12/2016	Change	
	m. EUR	m. EUR	m. EUR	%
Money market instruments, bonds and debt securities from public issuers	336	1,250	-914	-73.1%
Money market instruments, bonds and debt securities from other issuers	773	1,115	-342	-
Debt and other fixed-income securities	**1,109**	**2,365**	**-1,256**	**-53.1%**
Shares and other variable-yield securities	**1**	**5**	**-4**	**-80.0%**
Total securities	**1,110**	**2,370**	**-1,260**	**-53.2%**

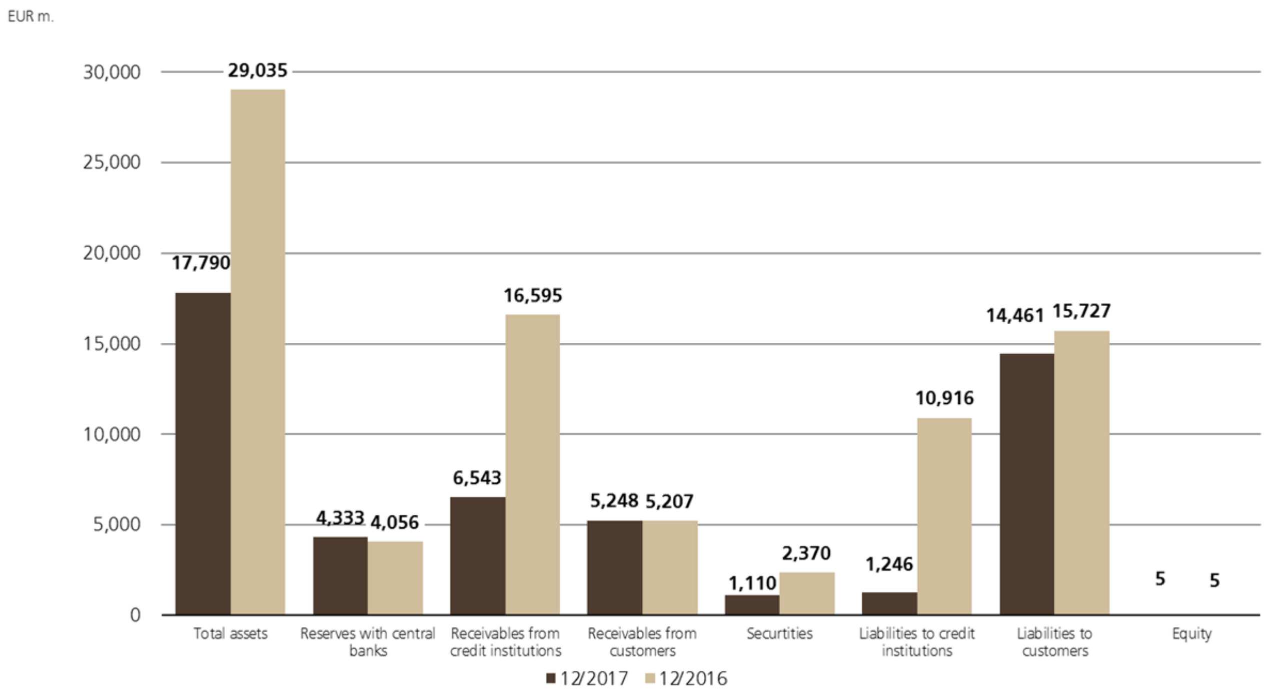
Equity

The bank's subscribed capital amounted to EUR 446.001.000 (prior year: EUR 176.001.000) and is divided into 446.001.000 registered shares. The capital and profit reserves amounted to EUR 536,4 m (prior year: EUR 986.4 m) and EUR 46.4 m, respectively.

From the capital reserve according to Sec. 272 para. 2 No. 1 HGB an amount of EUR 400 m was withdrawn and introduced to the nominal capital next to a reduction of capital in the amount of EUR 130 m. From the capital reserve according to Sec. 272 para. 2 No. 4 an amount of EUR 50 m was withdrawn and introduced to net profit.

The Common Equity Tier 1 (CET 1) ratio according to Article 92 CRR was 23.89 % (prior year: 16.77 %).

Summary of key balance sheet items



Valuation of interest rate transactions in the Banking Book at net realizable value

There was no net obligation as of 31st of December 2017. Therefore provisions were not recognized.

Results of operations

The values for the year 2017 are not directly comparable to those of the previous year as the current year includes the results of all foreign branches of UBS Europe SE. The 2016 result only included the month of December for UBS (Luxembourg) S.A. and its branches.

From an economic point of view, considering the result of the former UBS (Luxembourg) S.A. for the complete year 2016, the bank's net loss of EUR 48 m would be reduced to EUR 6.3 m. The financial year 2017 resulted in EUR 88.2 m.

Net interest income totaled approximately EUR 57.4 m, burdened by net negative interest amounting to EUR 21 m. The negative interest is related to the European Central Bank's Negative Interest Rate Policy and is expected to incur over the following years based on current market expectations. Net commission income in the amount of EUR 501.8 m. exceeds expectations due to the positive development of assets under management.

Regarding costs, the most significant items were personnel expenses with EUR 289 m including restructuring costs. Other administrative expenses amount to EUR 236,1 m. Of the other administrative expenses, 39.7% are intra group charges, particularly for IT and management services.

The result of UBS Europe SE also includes the result of the German Investment Bank division. The latter recorded a sales increase, which can be attributed to Corporate Client Solutions.

The sales of the wealth management business in the Netherlands led to an extraordinary income, which had a positive impact on the business performance.

In 2017 the bank has defined and implemented growth measures to increase revenues. Those measures focused on hiring additional client advisors to acquire new customers in some branches. This resulted in significant net new money growth and the target was exceeded. Thus revenues in 2017 developed according to our expectations.

On the cost side, the bank is working to foster efficiency to recuperate the economic result. For instance, the German location realized in 2016 a personnel cost cutting program. After the first cost savings during the implementation in 2016, the program led to a substantial cost reduction in 2017.

In a country comparison, the result for Germany has to be considered separately. Germany serves as Head Office of UBS Europe SE. The newly created Treasury function was established within the Head Office in Germany. Therefore the following table contains Germany with and without Treasury results. The Wealth Management business in Germany was able to achieve its profitability targets in Q4 2017.

The contribution to operating income by the branches is as follows:

in EUR k	Result before taxes on profit and loss
Denmark	-1.503
Germany	-36.456
Germany excluding UBS Europe SE Treasury	-9.028
Netherlands	29.741
Italy	52.728
Luxembourg	67.359
Austria	7.901
Sweden	-1.325
Spain	7.098
Total UBS Europe SE	**125.543**

Liquidity

UBS Europe SE was solvent at all times during the fiscal year. The liquidity principle stipulated by BaFin ["Bundesanstalt für Finanzdienstleistungsaufsicht": German Federal Financial Supervisory Authority] in accordance with Article 11 KWG was complied with at all times. The minimum ratio required by the supervisory authority is 1.00. As of 31st of December 2017, it amounted to 2.38 for UBS Europe SE (prior year UBS Deutschland AG: 1.92).

Since 1st of October 2015, the minimum requirements for the Liquidity Coverage Ratio (LCR) have to be fulfilled. During a phase-in period, the minimum ratio will increase stepwise from 70 % to 100 % until 2018. For 2016 the minimum requirement was set at 80 % according to the Delegated Regulation 2015/61 as of 10th of October 2014. As of 31st of December 2017, the LCR for UBS Europe SE amounted to 156.85 % (prior year UBS Deutschland AG: 121.87 %).

Investments

During the reporting year no major investments have been made.

III. Opportunities and Risk Report

The environment that **wealth management business** is

facing and banking sector in general is highly conditioned by the following aspects:

(I) Demographics: Growing entrepreneurial wealth creation, young generation with inherited wealth, new client player: women and an increasingly younger client base
(II) Transparency: Tax regularization is completed across all markets, with two consequences, the continuous repatriation of offshore assets to domestic markets or, in some cases, the need to provide the advice from the local markets while assets being booked abroad ("proximity"). MiFID 2 huge transparency requirements show a great opportunity for those entities advanced in its implementation and with sufficient financial and solvency muscle as to made the necessary investments
(III) Digitalization: High adoption of internet and mobile devices, increasing acceptance and demand for e-channels, ability to reduce costs and enter new segments
(IV) Regulations: Harmonization of regulations (e.g. MiFID), new regulation (in particular amendments of the MaRisk 2017 and BAIT), with the subsequent consolidation of European market and synergy potential for pan-European players

Within this context we clearly see the following challenges

(I) How to face an increasingly complex political environment
(II) Moderate economic growth in Europe, although solid in terms of trend, with low interest rates
(III) Implementation of regulatory requirements

The previously described scenario provides a serious of opportunities for our European entity:

(I) Adaptation of our current advisory model towards a much "holistic" approach, from asset manager to holistic wealth advisor
(II) Client demand for digital services combined with new clients segments to serve
(III) Advance in the implementation of our one WM platform, an IT cost – effective service platform across Europe which provides us with strong operating leverage for growth

With regards **Investment Bank** activities, framed also on the pattern described before, it has to be distinguished between Investor Client Services (ICS) and Corporate Client Solutions (CCS).

Investor Client Services (ICS), 2018 will see the implementation of MiFID II that will force unbundling of execution and advisory commissions. The biggest challenge within 2018 will be negotiating advisory budgets and execution rates with main counterparties. UBS stands to benefit from expected pressure in client´s advisory budgets given our superior positioning in Research witnessed by the most recent Independent Research Surveys like Institutional Investor. Flows into Passive continue to put detract from clients AuM. Good macro momentum and expected move in rates continue to favor allocations to equity.

With regards Corporate Client Solutions (CCS), differentiation / leadership position will be key: in line with UBS' strategy, banks are focusing on selected business areas where they can aim to get a leadership position / systematically be in the Top 3. We may face increased participation of independent boutique-like players providing independent advice. The implementation of MiFID II will have new consequences in the securities distribution space. Proper MiFID imlementation can provide a competitive advantage. Competition is fierce, and there is a risk of "commoditization" of certain transactions / solutions which may affect the overall fee pool.

With regards **asset management** business we foresee the following trends, challenges and opportunities:

(I) Investor demand continues to shift from active toward passive investments
(II) Growing demand for Sustainable Investing
(III) Regulatory changes have generated implementation challenges and significant costs (MiFID II, PRIIPs). An increasingly competitive market is putting pressure on margins
(IV) Asset growth expected to continue, supported by equity market growth in the short term, and GDP growth and pension savings in the medium term. Addressing the rapidly changing investor needs (e.g. digitization, integrated platform services, solutions) will be key success factors

IT Risks

Both the volume of cyber–related attacks and their sophistication have increased substantially in the financial Industry and the expectation is that this trend will continue. UBS communicates with its industry peers, regulators, Industry intelligence sources and law enforcement to address developments in the threat landscape (scope) and the sophistication of attacks. UBS group has increased the investment in cyber security through the recent years, allocating significant resources for the operation of the firm’s security control infrastructure as well as programs to address the evolving threats. Frequent Management Reporting regarding Cyber Threat Risk has been established and regular status updates are presented to the Risk Control Committee. While cyber threats remain a major concern for the entire bank sectors, no impacting events were reported as a result of cyber-attacks to our firm. The further development of the regulations (for example BAIT, NIS Directive, IT Security Act) as well as ensuring data security and integrity in data collection in the IT systems will be the focus of regulatory regulation in the coming years (or in the future).

Market and competitive risks

Due to its multinational and multicultural nature the banking business in Europe is highly heterogeneous. Given this fragmentation of the market, regional players have emerged in the various European nations and became well established in the financial services market of their selected region. As one of the top brands in the business, the UBS branches face vigorous competition from well-established financial service providers on a national and regional level. Examples of such players include Deutsche Bank and Commerzbank in Germany, Nordea and Danske in Denmark or Intesa Sanpaolo and Unicredit in Italy. Some Swiss banks such as Julius Bär and Pictet have been establishing themselves across Europe, further increasing competition.

While growth projections for the European banking sector are moderate and competition is high, UBS Europe SE is well positioned to differentiate itself from its competitors. As the only competitor in the market with a pan-European Wealth Management setup, UBS Europe SE can develop a sustainable competitive advantage by balancing the comprehensive local and global expertise of its various business units.

On European soil Germany is the most fiercely competed market for **Investment Bank** services. In addition to the presence of strong German banks, major foreign banks have been established in Germany for many years. However, some US banks among other major foreign banks have been partly withdrawing from Europe, shifting their focus towards growing markets such as Asia. Across all products and services, Deutsche Bank, Goldman Sachs and JP Morgan are the Investment Bank's main competition in Germany. Competitors in specific segments include Commerzbank, HSBC Trinkhaus, Morgan Stanley and Citigroup.

Our competitors in **Asset Management** mainly include major national asset managers of the respective UBS Europe SE branches and other international asset managers such as BlackRock, Fidelity Investments, JP Morgan and Franklin Templeton as well as boutiques such as Flossbach von Storch.

Risk management and methods

UBS Europe SE uses a risk management and risk control approach that is both qualitative and quantitative in nature.

The concrete application of quantitative or qualitative measures is dependent on the nature of the respective risk and whether it is managed as part of the day to day business (operational level) or on a strategic level. While operational risk is limited qualitatively by policies and process descriptions, the bank's primary risks are mainly steered by quantitative operational limits.

The overall principles of risk management and risk control, including the limit setting on qualitative and quantitative level are defined within the Risk Appetite Framework of UBS Europe SE.

A more strategic quantitative view of the Bank's risk taking activities is provided by the Bank's ICAAP (Internal Capital Adequacy Assessment Process) concept. The ICAAP concept serves as a steering tool at UBS Europe SE entity level, taking on a one year forward looking perspective.

The concept defines the overall ICAAP methodology, outlines how the bank quantifies its material risks and how it proves that the material risks derived from risk taking activities are covered by available own funds ("Risikotragfähigkeitsberechnung"). As a preferred management approach for the ICAAP, UBS Europe SE applies a "going concern" approach, including a baseline as well as a stress scenario. An additional "gone concern" view completes the overall ICAAP concept.

In order to simulate a macroeconomic downturn UBS Europe SE makes use of the so called "Combined Stress Test" (CST) and the underlying risk models developed by UBS AG. The CST applies a predefined macroeconomic stress scenario consistently to all material risk categories of the bank. In order to cater to the specific aspects of UBS Europe SE's risk profile as well, the CST is complemented by local analyses. By this it can be ensured that overall the UBS Europe SE ICAAP covers both macro-economic as well as idiosyncratic components and therefore is able to reflect the individual risk profile of UBS Europe SE comprehensively. The CST with all of its components is part of the comprehensive UBS Europe SE outsourcing framework.

With respect to the daily risk monitoring it is ensured that also further developing primary risks are covered appropriately as they are of increasing importance for UBS Europe SE. Treasury AML is dedicated to the proper management of the bank's balance sheet, including liquidity management in line with the agreed risk appetite. A dedicated Market and Treasury Risk Control unit supervises the activities of Treasury AML as an independent party and escalates to the Management Board if required.

Counterparty Default Risk

Customer lending business

Counterparty default risks are mainly associated with UBS Europe SE's lending business, which primarily consists of collateralized loans for Wealth Management customers. Key eligible collateral types for this business are marketable securities as well as first ranking mortgages over residential properties in Germany and Italy. The large cap corporate lending and trading activities of the Investment Bank division do not form part of the key credit activities of UBS Europe SE and remained dormant throughout the entire fiscal year. The trading business of the Investment Bank Division still relates to transactions without counterparty default risk only, i.e. securities transactions are settled on a delivery against payment basis.

UBS Europe SE credit business focused on the traditional securities-backed Lombard loan business in Wealth Management throughout fiscal year 2017. In line with the credit risk strategy of UBS Europe SE, the collateralized Lombard loan business continued to be the credit activity designed to support relationships with private customers, private investment companies and, to a limited extent with corporate clients. In addition, the bank continued to offer collateralized hedging facilities and short term redemption bridge facilities within the assets servicing business maintained in Luxembourg. This collateralized business relates to the custodian bank function of the bank for regulated funds and is offered as a supplementary offering to support the local asset servicing / custody business.

Real estate lending to wealth management clientele secured by first ranking mortgages mainly over eligible residential mortgages is only supported in Italy and Germany. The latter mortgage business in Germany is in the process of being phased out, i.e. no new business taken on since 2014 with the incumbent loan book being repaid along legacy maturity profile. In Italy, the selective mortgage lending business of the bank was launched a few years ago only. The overall mortgage lending activity of UBS Europe SE incl. Germany & Italy represents less than 5 percent of the overall loan book and is thereby not material from a credit risk standpoint.

Other than that, the bank maintains the restricted Corporate & Institutional Clients business in Germany only. This offering focuses on payment products, intra-day overdraft limits and direct debit limits for selected subsidiaries of Swiss Corporate Groups in turn maintaining banking relationships with UBS Switzerland AG. This activity continued to remain immaterial from a credit risk and limit notional amount perspective (less than 0.2% of the overall book).

In terms of volume split, the wealth management related collateralized Lombard lending business shows a balanced split across countries with Italy branch embracing 34%, Luxembourg branch 31% (incl. Austria and Nordic clientele), Germany 20 % (incl. Latin America offshore business) and Spain branch 15%.

During the fiscal year 2017, the bank's credit risk control function again focused on the review of Lombard lending underwriting as well as monitoring practice across locations, i.a. to safeguard MaRisk compliance. Overall alignment activities throughout 2017 focused on the review and adoption of UBS Group credit policies in addition to collateral valuation and methodology principles in order to further foster credit quality commonalities being in place across all UBS Europe SE locations.

Also, no material risk concentrations, neither on credit relationship level nor on collateral level were identified. Having said that, no new material loan defaults were identified / reported in the context of UBS Europe SE collateralized loan business during the fiscal year 2016.

Market Risk

Market Risk is the risk of loss resulting from adverse movements in market variables such as interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices.

Investment Risk, as the consequential risk of operational risk (especially suitability risk) for UBS Europe SE, is a sub-category of market risk. It occurs if the bank has to take shares onto the own book due to operational errors or litigations.

UBS Europe SE does not engage in proprietary trading book activities. Non-trading (Banking Book) market risk arises largely from client deposits and lending products in our Wealth Management business. Interest rate risk related to non-maturing client deposits is modelled by means of replication portfolios. Treasury ALM is authorized to run market risk arising from the interest rate duration mismatch inherent in Wealth Management´s balance sheet. Treasury ALM also manages a local liquidity portfolio, which is maintained to fulfil the entity's regulatory liquidity requirements and to invest excess cash. It contains high quality liquid assets (government, supranational, government agency issuers rated AA or better), reverse repo with UBS AG and cash at central bank.

Foreign exchange risk arises from client transactions which are hedged with UBS Group entities and foreign currency profit and loss converted to Euro on a regular basis.

Market risk is monitored by Market and Treasury Risk Control using standard risk metrics (such as value at risk).

Liquidity Risk

Liquidity risk is the risk that the institution is not able to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses.

Our liquidity risk management aims to maintain a sound liquidity position to meet all of our liabilities when due and to provide adequate time and financial flexibility to respond to a firm specific liquidity crisis in a generally stressed market environment, without incurring unacceptable losses or risking sustained damage to our various businesses.

The Liquidity and Funding Framework & Management Policy of UBS Europe SE defines the processes, roles and responsibilities that ensure that UBS Europe SE's exposure to liquidity risk is monitored, efficiently structured and managed in accordance with regulatory requirements and the risk appetite set by the UBS Europe SE Management Board.

Operational Risk

Operational risk arises naturally from all areas of UBS Europe SE's activities, and is defined as the risk resulting from inadequate or failed internal processes, people and systems, or from external causes (deliberate, accidental or natural) which have an impact (either financial or non-financial) on UBS, its clients or the markets in which it operates. Operational risk may result in direct financial losses or indirect losses in the form of revenue forgone as a result of business suspension. It may also result in damages to our reputation and to our franchise, implying longer term financial consequences.

Conduct risk is a subset of operational risk. The group-wide definition of 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”. Together, these definitions provide a complete view of the impact of operational risks, issues and failures both internally and externally.

UBS Europe SE’s operational risk exposure is systematically monitored, assessed and reported by the Compliance and Operational Risk Control department. The monitoring and assessment of operational risk processes are based on a holistic control framework of quantitative and qualitative risk indicators, and on the approved Risk Appetite Framework. Monitoring, assessment and reporting are managed on enterprise level, considering the aggregated UBS Europe SE network of branches and subsidiaries, and acting on individual entity level if required. UBS Europe SE’s governance bodies are fully updated on the operational risk exposure in accordance with the approved UBS Europe SE Risk Governance structure.

During 2017, the majority of the operational risk's events nature was aligned with the UBS Europe SE's key activities as a Wealth Management services provider. The total registered amount during 2017 was reduced significantly compared to previous year and no concentration on untypical risk types was recognized.

With regard to financial provisions for operational risk the balance between increased and released provisions shows a strongly positive result in favor of provision released due to favorable settlement of pre-existing cases within the litigation portfolio.

To ensure operational continuity in case of system failure, emergency plans for each of the business centers are in place. Furthermore these centers are technologically independent.

The pre-existing Recovery Plan has been upgraded to serve the needs of the newly created UBS Europe SE in the supervision of potential recovery situations and their respective escalation process. These elements are integrated into the existing risk management and control system, the corresponding monitoring of recovery indicators and their utilization are an integral part of the monthly risk reporting.

During 2017, UBS Europe SE has implemented additional measures to re-inforce the integrated view of the respective local operational business continuity plans, which allows the firm to oversee operational continuity holistically across the legal entity.

In light of the issuance of the BaFin circular on Minimum Requirements for IT systems of Banks, the bank has initiated a revalidation of its governance and control framework around information security.

Outsourcing Risk

Outsourcing risk as the aggregate outsourcing risk of branches' and subsidiaries' exposures is managed, assessed and controlled primarily at enterprise level and complementary acting on individual basis if required.

The intragroup outsourcing risk is subject to ongoing evaluation in accordance with the Circular 10/2017 Minimum Requirements for Risk Management (MaRisk). The results of this evaluation process are being managed to ensure full compliance with MaRisk requirements. Final results are expected by the second half of 2018.

UBS Europe SE's operational strategy is designed to leverage the group's strengths to gain on efficiency and scalability. This strategy will gradually increase the intragroup outsourcing framework and the contract structure standardization across the entire UBS Europe SE network.

The external outsourcing framework and risk are equally subject to ongoing evaluation in light of the MaRisk requirements. In general terms, UBS Europe SE's outsourcing framework management model is the successor of the former UBS Deutschland AG's model. The latter used to be audited by the German Federal Financial Supervisory Authority (BaFin) and by the Deutsche Bundesbank in previous years.

For the efficient outsourcing management UBS Europe SE has set up teams and governance (1st and 2nd line) to ensure early and effective implementation of any new regulatory requirements. Additionally all staff of UBS Europe SE responsible for contracting were trained to fulfill MaRisk requirements in their daily business.

The major part of the Corporate Center services are provided by the newly established UBS Business Solutions AG, a one hundred percent subsidiary of UBS AG. The contractual framework of the agreed services of the UBS Business Solutions AG fully complies with the MaRisk removal requirements.

Reputational Risks

Reputational risk is the risk of a decline in the reputation of UBS Europe SE from the point of view of its stakeholders - customers, shareholders, staff and general public. First, each action, existing or new transaction or product that can cause damage to the reputation might lead to losses in the appraisal value either directly or indirectly via triggering losses in other risk categories. Second, every loss in other risk categories – irrespective of its size – can cause lasting damage to the reputation of UBS Europe SE if it becomes public knowledge. Therefore, reputational risk can be a consequence of losses in all risk categories such as market and credit risk, as well as a cause for them.

As afore mentioned, customers are one of the key UBS Europe SE stakeholders in terms of firm's reputation protection. Overall number of client complaints has been on a stable moderate level over the year and no critical patterns have been identified.

No relevant reputational risks have been identified towards shareholders, staff and general public during 2017. In terms of reputational risk towards regulators, the focus is on maintaining a transparent and reliable working relationship with all relevant regulators. It can be stated that this has been achieved again over the year 2017.

That notwithstanding, there have been the following events noteworthy for the interaction with our regulators:

In March 2017, UBS Europe SE was made aware by Bundesbank about missing transactions within the Foreign Trade Reporting (AWV) in Germany. An ongoing dialogue with Bundesbank as well as an expert call within UBS Europe SE was established to solve the issue.

Luxemburg branch as a foreign broker failed to submit large trader reports to the Chicago Mercantile Exchange (CME) by the required deadline. Warning letter issued by CME indicating potential fines and either ad-hoc or permanent prohibition from trading on US stock markets for recurring patterns – overall reporting dependencies with other business divisions. Mitigation actions were implemented, without any new issue repetition.

In another instance, Luxembourg branch did not correctly provide collateral reporting pursuant to EMIR 2.0 affecting both UBS's own reporting and reporting by third parties who entered into a delegated reporting agreement with UBS. The issue was communicated to BaFin and remediation is ongoing to ensure full compliance.

With regards to "Panama Papers", both BaFin and CSSF issued various information requests which have all been duly answered.

An Audit was conducted by Comision Nacional del Mercado de Valores (CNMV) in 2015 on investment suitability, investment advice, discretionary PM, FIMs, classification of instruments with. Findings in the distribution of funds resulted in a EUR 500k fine which was paid in December 2017.

Litigation

In the following only the material litigation cases will be outlined.

A significant proportion of the value in dispute for UBS Europe SE, as legal successor to UBS (Luxembourg) S.A. and UBS Deutschland AG is attributable to the consequences of the Madoff investment fraud. As a result of the fraud, two third-party funds established under Luxembourg law, substantially all the assets of which were invested via by Bernard L Madoff Investment Securities LLC ("BMIS"), as well as certain funds established in offshore jurisdictions, with either direct or indirect exposure to BLMIS face severe losses. Both of the Luxembourg funds are in liquidation. The documentation establishing these funds identified UBS entities in various roles including custodian, administrator, manager, distributor and promoter and also indicated that UBS employees served as board members. UBS Europe SE (as successor of UBS (Luxembourg) S.A.) is involved in claims in various jurisdictions brought by investors in funds affected by the Madoff fraud, as well as claims by the liquidators of the two Luxembourg funds and the Trustee for the liquidation of BMIS. The majority of these claims are pending in Luxembourg. UBS Europe SE, its Luxembourg branch and certain other UBS subsidiaries are also responding to inquiries by Luxembourg investigating authorities without, however, being named as parties in those investigations. UBS Europe SE (as successor to UBS Deutschland AG) is involved in a small number of claims brought by certain clients who invested through third-party funds and funds administered by UBS entities in Germany that were affected by the Madoff fraud. UBS Europe SE also faces two claims brought against it as the legal successor of Dresdner Bank Lateinamerika AG; one brought by the liquidators of an offshore fund and the other, by the Trustee for the liquidation of BLMIS. UBS Europe SE continues to defend itself vigorously in all pending claims, as the bank firmly believes that it has done nothing that provides any basis for claims with respect to losses caused by the Madoff fraud.

UBS Europe SE is indemnified by UBS AG up to a contractually defined maximum amount for Madoff-related liabilities that might arise as a result of having become the successor to UBS (Luxembourg) S.A.

The indemnity agreement with UBS Europe SE has turned the original litigation risk into a counterparty risk involving UBS AG. As a consequence UBS Europe SE's concentration risk towards the group has increased. In order to appropriately monitor the enhanced concentration risk a "collateral posting process" has been implemented in addition to the already existing monitoring processes. According to the collateral posting process UBS AG needs to provide additional collateral in case its long term credit rating falls below a pre-defined threshold. In addition, the specific litigation risk is monitored by the Legal department on a continuous basis.

Apart from those cases related to the Madoff investment fraud, UBS Europe SE was involved in a high double digit number of litigation cases with a total alleged amount of approximately EUR 125 m. UBS Europe SE has established provisions in a lower double-digit million amount for these cases. The most significant cases within this category are described hereinafter:

More than half of the amount in dispute in Germany, relates to two cases in which customers in the Latin America segment primarily claim damages resulting from option trades. One of these customers is suing for payment of an amount above EUR 60 m. This customer's claim was dismissed in first instance and is now under appeal.

In a credit-related case in Luxembourg the plaintiff claims damages in a low double-digit million amount alleging in particular lack of suitability. This customer's claim was dismissed in first instance.

Following an appeal, the case has been referred back to the first instance (with a change in the court's composition).

The majority of the cases in Spain are related to products MiFID classified as "complex" (basically structured products) and is based on suitability topics (previous experience and knowledge, lack of information). Some cases are also related to families' disputes and Lombard agreements.

In a credit-related Spanish case, in which plaintiff claims damages amounting to a high single-digit million amount, the customer's claim was dismissed in first instance and is now under appeal.

In Germany, cases in a single-digit million amount are still pending, relating to a business line, which has been closed in 2011 (Sauerborn). The claims mainly allege the non-disclosure of certain information and claim compensation for losses incurred in the 2008 financial crisis.

Legal proceedings related to closed end funds make up the largest amount in number of cases in Germany. In approx.. 20 cases clients mainly allege that certain information was not disclosed. The total value in dispute at the end of 2017 for these cases amounts to approximately EUR 4 m.

In 2016 a client in Italy filed a claim amounting to a single-digit million amount, claiming for damages and losses coming from a contractual and extra-contractual liability and alleging the infringement of contractual obligations by UBS Italy in the execution of certain bank transfers. Court found in UBS's favor and dismissed the claim for lack of jurisdiction. The former client commenced then an arbitration claiming his alleged damages in respect of allegedly unauthorized transactions.

In a case related to the former branch of UBS (Luxembourg) S.A. in Belgium the plaintiff claims damages amounting to a single-digit million amount. The claim is based on suitability concerns by the client. This customer's claim was dismissed in first instance and is now under appeal.
In a case related to the revocation of a line of credit a customer in Italy claims a single-digit million amount. This customer's claim was dismissed in first instance and is now under appeal.
In another low single-digit million case in Spain regarding a structured product, the court of appeal dismissed the claim by the plaintiff, who now appealed to the Spanish Supreme Court.
The bank will continue to be subject to litigation risks in the future.

Internal and external Investigations
In Germany the ongoing investigations by the public prosecutor’s office in Mannheim continue to represent a potential reputational risk for the bank. During the reporting period, all investigations by the prosecutor against current and former employees of UBS have been closed. The bank did not become aware of any suspicions relating to staff at UBS Deutschland AG, the legal predecessor of UBS Europe SE.

In September 2017, the Bochum prosecutor and the Wuppertal tax authorities searched the head office of UBS Europe SE in Frankfurt in the context of an ongoing criminal investigation into suspected tax evasion by German(-domiciled) clients of the former UBS Luxembourg S.A. (now UBS Europe SE Luxembourg Branch). The investigation is still ongoing. UBS is also cooperating with requests for information from the Luxembourg authorities

Risk Mitigation

Legal risks are curtailed at various stages of work processes by measures put in place by Legal and Compliance among other departments. Main preventive measures include the operational framework as well as the involvement of Legal in the drafting of standard forms and contracts. Non-standardized contracts and/or disclaimers require review and sign-off by the Legal department. Outside legal counsel may only be retained by the Legal department or a unit authorized by the Legal department. During the processing of legal proceedings, the bank regularly reviews whether a provision needs to be recognized or adjusted for specific events. Legal reports on significant developments in existing and new litigation cases are reported to the Risk and Capital Committee of UBS Europe SE on a monthly basis.

Overall, no material legal risks in connection with the abovementioned legal matters beyond the individual case level were identified for the bank in the reporting period. In individual cases the Legal department and the Compliance department have provided information and specific recommendations on how to lower the risk with regard to operational processes, documentation or product design based on experience gained from processing complaints, actions filed and other events.

Risk Position

The bank's own funds pursuant to Article 72 CRR amounted to EUR 1,051 m (prior year: 1,314 m), which corresponds to an overall ratio of 23.89 % (prior year: 16.77 %). The capital requirements according to Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) have been fulfilled at all times during the fiscal year.

The bank's risk-weighted assets as of the balance sheet date break down as follows:

Risk-weighted assets in EUR m	31st of December 2017
Credit risk	2,987
Market risk	0
Operational risk	1,245
Credit value adjustments	167
Total risk-weighted assets	4,399

Summarizing presentation of the risk position

UBS Europe SE carries out a risk inventory on a yearly basis and calculates an overall bank risk profile on the basis of this risk inventory. Based on the business activities of UBS Europe SE the operational as well as the business/earnings risks are the most significant risks at the overall bank level.

Within the scope of the risk-bearing capacity concept, potential risk exposures for business, operational, counterparty default, market, funding and pension risk, are calculated on a quarterly basis. The identified risk potentials are compared with the risk cover potential available on the respective reporting date.

In conceptual terms, a Going Concern approach has been defined as a preferred management approach. This is divided into a basic scenario and a stress scenario, whereof the basis scenario was defined as primary used for steering purposes. In addition, the bank determines a Gone Concern perspective on the risk-bearing capacity, which is intended to ensure creditor protection in particular. The consideration of liquidity risks in terms of insolvency risk within the risk-bearing capacity concept is omitted since this risk cannot be reasonably covered with equity.

The overview below shows the utilization of the individual scenarios for the risk-bearing capacity calculation as of 31st December 2017:

Table Risk mitigation

31/12/2017 in m. EUR	**Capital limits**	**Capital use – Going Concern Basis-scenario**	**Capital use – Going Concern stress scenario**	**Capital use - Gone Concern scenario**
Total capital	-	1051	1051	1051
(./.) capital requirements according to CRR (pillar I)	-	571	571	-
Ytd P&L (HGB)[1]		0	0	0
planned P&L (HGB)	-	100	100	-
(./.) hidden losses (HGB)	-	-	-	7
Risk cover potential for covering of pillar II risks	-	**580**	**580**	**1044**
Business-/ Income Risk	150	48	137	159
Operational Risk	100	61	73	97
Counterparty Default Risk	40	8	11	14
Market Risk	40	8	13	13
Funding Risk	20	0	7	7
Pension Risk	20	1	3	87
Total	**330**	**126**	**244**	**376**
Risk-free capital	**-**	**454**	**336**	**668**

[1] The net income of EUR 88.2m is not considered as risk cover potential since it will be distributed in the course of 2018 to UBS AG

IV. Forecast Report

UBS Europe SE has its core business in Wealth Management and is set up as a pan-European Wealth Manager, with supporting business divisions providing other services on a regional level.

We aim to expand all of our business activities in Europe, being the UBS home market, over the long term and to be one of the market leaders and the first choice among our target clients. We aspire to further develop our market position and to safeguard and improve our reputation. To achieve that, we have defined a clear strategy for active customer acquisition. By supporting and developing the cooperation between different markets, segments and divisions we want to ensure that our clients have access to the entire set of capabilities and skills our company has to offer. The key challenges to achieve this are notably the continuous implementation of new regulatory requirements, a cost-efficient positioning to compensate for falling income and a sustainable approach to rebuild customer confidence across all divisions and markets.

The European Wealth Management market is undergoing fundamental structural changes with significant implications for the bank (e.g. customer protection, MiFID II, regulatory requirements, technological change). The decision to consolidate and optimize our entity structure in 2016 with the creation of UBS Europe SE will allow us to deliver an "onshore" experience to our WM clients, combined with easy market access for all businesses across the European Economic Area (EEA).

EUR 3.3 trn of onshore managed wealth, make western Europe largest onshore managed wealth pool globally after North America and Asia, being one of the top 3 key markets for our global Wealth Management business. With private wealth across Western Europe expected to grow by approximately 4 % p.a. until 2021, we expect to outperform the market with regard to the increase in earnings by capturing additional market share in the coming year through focused and disciplined execution of our strategic levers and priorities on our core segments (UHNW, HNWI, FIM and affluent).

Furthermore we see additional potential for growth due to an increasing willingness of clients to switch to new service providers, the growing tendency to have accounts with multiple banks and UBS Europe SE’s ability to transcend borders and cater to our clients’ cosmopolitan lifestyle.

By hiring additional customer advisors, we expect to improve the ratio of front and support staff.

The Investment Bank division is positioning itself on the basis of expert consulting services, innovative solutions, excellent execution and extensive access to the global capital markets.

As the regulatory reforms and the structural transformation of the market of Investment Banking are continuing, just like other market players, UBS is focusing on its core activities and abandoning products and services that are deemed overly complex, don’t generate stable risk-adjusted returns, or are accompanied with an intensive strain on either risk-weighted assets or capital.

The Investment Bank aspires to provide best-in-class services and solutions to our corporate, institutional and wealth management clients, through an integrated, solutions-led approach, driven by our intellectual capital and leveraging our award-winning electronic platforms. The IB's focus remains on its traditional strengths in advisory, capital markets, equities and foreign exchange businesses, complemented by a rates and credit platform, to deliver attractive and sustainable risk-adjusted returns. Using their powerful research and technology capabilities, the IB pioneers integrated solutions to support their clients as they adapt to evolving market structures, driven by changes to the regulatory, technological and economic landscape.

In the Investment Bank the focus is on a significant increase in the turnover base and the expansion of the market position in Europe by focusing on our core competencies and expanding the relationships with our top clients, based on a successfully completed strategic transformation. The development in 2018 and 2019 will depend on further developments of the market, possible organizational changes as well as the success of initiatives executed within the Cross Business Collaboration. The Brexit decision in UK has added uncertainty for the investment bank business and the European business set-up may require changes.

Within UBS Europe SE the Asset Management division specializes in offering services to institutional investors, distribution of investment funds through various financial service providers and support for Wealth Management in distributing UBS investment funds or investment management expertise.

With approximately EUR 20 bn under management at the end of 2017, the Asset Management division is well positioned to further strengthen its position as one of the leading international asset managers in the countries where it operates in UBS Europe SE.

Asset Management aspires to provide clients with the best ideas and superior investment performance by drawing on the breadth and depth of insights and capabilities to deliver high-quality solutions and services. Our ambition is to strengthen position as one of the leading international asset managers in Europe, being Fully aligned with the overall ambitions of UBS Europe SE.

UBS AM ESE strategy fully reflects the UBS AM Group strategy and is aligned to the specific regulatory requirements and market needs from our local teams.

On the Institutional Client Coverage side, we aim to establish a position as leading investment house on Passive, Sustainability, Emerging Markets (China) and Real Assets and as trusted partner to largest institutional investors.

With regards, Wholesale Client Coverage, it is a priority for us to position UBS AM as a leading asset manager in High Alpha, Alternatives, Sustainability, Passive, Solutions. We are further strengthening Asset Management collaboration with WM to bring the best of AM to their clients and support WM in the transformation.

In view of the at beginning of 2018 announced acquisition of the Nordea Luxembourg business it is planned to increase regulatory capital over the course of the year by raising additional tier 1 capital.

Principal Risks and Uncertainties

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 UBS Limited into UBS Europe SE, our German headquartered European bank, prior to the United Kingdom leaving the European Union on 29 March 2019. Clients and other counterparties of UBS Limited would become counterparties of UBS Europe SE through the planned merger of the two entities. However, we anticipate that clients of UBS Limited who can be serviced by UBS AG, London Branch would generally be migrated to UBS AG, London Branch prior to this merger. We further anticipate that some staff 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.

V. Dependency Report according to Article 312 AktG (3) sentence 3

The Management Board of UBS Europe SE has provided a report on the relations with affiliated companies for the fiscal year, which includes the following declaration:

"For all known legal relationships with the obligation to be reported in the Dependency Report according to § 312 with related parties and affiliated entities, UBS Europe SE received appropriate compensation in return. The company has not been prejudiced by any act or omission".

Frankfurt/Main, 26 April 2018

UBS Europe SE

- The Management Board –

Thomas Rodermann	Birgit Dietl-Benzin	Fabio Innocenzi
René Mottas	Dr. Andreas Przewloka	Stefan M. Winter

UBS