The English version is translated from the original German report for information purposes only. In case of discrepancy, the German version prevails.

# UBS Europe SE

## Financial Statement and Dependency Report 31 December 2021

*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 2021, and the income statement for the fiscal year from 1 January 2021 to 31 December 2021, 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 2021 to 31 December 2021. 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 2021 and of its financial performance for the fiscal year from 1 January 2021 to 31 December 2021 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. Our opinion on the management report does not cover the content of the statement on corporate governance pursuant referred to above.

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.

**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 2021 to 31 December 2021. 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 matter:

**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 indemnity guarantees from the Swiss parent company UBS AG CH 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 agreements concluded between UBS Europe SE and UBS AG CH 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 CH, one of its major borrowers, and that there are no doubts as to the creditworthiness of the borrower UBS AG CH in terms of the total outstanding and the guarantee amounts.

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 agreements.

We inspected a sample of closed legal cases in 2021 in order to investigate the impact on the previous assumptions and therefore also on the calculation of the maximum indemnities.

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 pursuant to Sec. 289f (4) HGB in 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.

If, based on the work we have performed, we conclude that there is a material misstatement of such other information, we are required to report that fact. We have nothing to report in this regard.

**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 25 June 2021. We were engaged by the supervisory board on 9 August 2021. 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. 89 (1) WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act) and Sec. 89 (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 2020 to 30 June 2021,
- Execution of agreed upon procedures according to ISRS 4400,
- Review of a reporting package according to ISRE 2410 and IDW PS 900,
- Audit of the internal control system according to ISAE 3402 and
- Assessment of the appropriateness of the option pricing models subject to approval review in accordance with the International Standard on Assurance Engagements (ISAE 3000).

**German Public Auditor responsible for the engagement**

The German Public Auditor responsible for the engagement is Iris Helke.

Eschborn/Frankfurt am Main, 12 May 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| signed | signed |
| Helke | Kuhlmann |
| Wirtschaftsprüfer | Wirtschaftsprüferin |
| (German Public Auditor] | (German Public Auditor] |

## Table of Content


# 1. UBS Europe SE

4 Balance Sheet
6 Profit and Loss Statement

# 2. Notes

8 Accounting and valuation principles
11 Notes to the balance sheet
16 Notes to the profit and loss statement
17 Other notes

# 3. Management Report

23 Business Report
28 Economic Report
35 Opportunities and Risk Report
46 Forecast Report
47 Dependency Report

# 4. Other disclosures in accordance with Sec. 26a (1) Sentence 2 and 4 KWG

# 5. Report of the Supervisory Board for 2021

## Balance sheet of UBS Europe SE as at 31 December 2021

| Assets<br>*EUR thousand* | | | | 31.12.2021 | 31.12.2020 |
|---|---|---|---|---|---|
| Cash reserve | | | | | |
| a) Cash on hand | | | 493 | | 1,046 |
| b) Balances with central banks | | | 2,022,562 | | 1,675,016 |
| *thereof: with Deutsche Bundesbank* | | *1,028,792* | | | *624,757* |
| | | | | 2,023,055 | 1,676,062 |
| Due from banks | | | | | |
| a) payable on demand | | | 6,060,419 | | 3,376,119 |
| b) other amounts due | | | 24,124,769 | | 22,642,324 |
| | | | | 30,185,188 | 26,018,443 |
| Due from customers | | | | 6,693,899 | 6,841,270 |
| *thereof: secured by real estate property lines* | | | *258,975* | | *336,225* |
| Debt securities and other fixed-income securities | | | | | |
| a) Money market securities | | | 755,095 | | |
| aa) issued by the public sector | | 755,095 | | | 1,745,241 |
| *thereof: eligible as collateral with Deutsche Bundesbank* | *255,906* | | | | *1,107,701* |
| ab) issued by other borrowers | | 0 | | | 521,093 |
| *thereof: eligible as collateral with Deutsche Bundesbank* | *0* | | | | *370,997* |
| b) Bonds and debt securities | | | 3,537,117 | | |
| ba) issued by the public sector | | 785,939 | | | 1,471,988 |
| *thereof: eligible as collateral with Deutsche Bundesbank* | *785,939* | | | | *1,471,988* |
| bb) issued by other borrowers | | 2,751,178 | | | 2,226,989 |
| *thereof: eligible as collateral with Deutsche Bundesbank* | *2,751,100* | | | | *2,226,911* |
| | | | | 4,292,212 | 5,965,311 |
| Shares and other variable-yield securities | | | | 724 | 742 |
| Trading portfolio | | | | 4,673,649 | 5,560,280 |
| Equity investments | | | | 620 | 668 |
| *thereof: in banks* | | | *0* | | *0* |
| *thereof: in financial services institutions* | | | *0* | | *0* |
| Shares in affiliates | | | | 10,009 | 10,009 |
| *thereof: in banks* | | | *0* | | *0* |
| *thereof: in financial services institutions* | | | *10,009* | | *10,009* |
| Trust assets | | | | 17,133 | 22,049 |
| *thereof: trust loans* | | | *0* | | *0* |
| Intangible assets | | | | | |
| b) Purchased franchises, industrial and similar rights and assets and licenses in such rights and assets | | | 580 | | 763 |
| c) Goodwill | | | 90,184 | | 100,947 |
| | | | | 90,764 | 101,710 |
| Property and equipment | | | | 15,290 | 18,784 |
| Other assets | | | | 1,767,264 | 2,227,102 |
| Prepaid expenses | | | | 3,544 | 4,592 |
| Total assets | | | | 49,773,351 | 48,447,022 |

## Balance sheet of UBS Europe SE as at 31 December 2021

| Liabilities<br>*EUR thousand* | | | 31.12.2021 | 31.12.2020 |
|---|---|---|---|---|
| **Liabilities to banks** | | | | |
| a) payable on demand | | 3,595,558 | | 3,583,000 |
| b) with an agreed term of period of notice | | 14,883,862 | | 13,515,350 |
| | | | 18,479,420 | 17,098,350 |
| **Liabilities to customers** | | | | |
| b) other Liabilities | | | | |
| ba) payable on demand | | 21,076,685 | | 20,258,321 |
| bb) with an agreed term of period of notice | | 332,330 | | 217,161 |
| | | | 21,409,015 | 20,475,482 |
| **Securitized liabilities** | | | | |
| a) debt securities issued | | 1,099 | | 5,072 |
| | | | 1,099 | 5,072 |
| **Trading portfolio** | | | 2,331,507 | 2,782,149 |
| **Trust liabilities** | | | 17,133 | 22,049 |
| *thereof: trust loans* | | *0* | | *0* |
| **Other liabilities** | | | 1,177,592 | 1,430,499 |
| **Deferred income** | | | 634 | 1,327 |
| **Provisions** | | | | |
| a) Provisions for pensions and similar obligations | | 312,492 | | 293,275 |
| b) Tax provisions | | 70,755 | | 40,352 |
| c) Other provisions | | 217,725 | | 199,775 |
| | | | 600,972 | 533,402 |
| **Subordinated liabilities** | | | 2,707,030 | 2,041,527 |
| **Fund for general banking risks** | | | 8,589 | 0 |
| *thereof: special reserve pursuant to Sec. 340 e (4) HGB* | | *8,589* | | *0* |
| **Equity** | | | | |
| a) Subscribed capital | | 446,001 | | 446,001 |
| b) Capital reserves | | 1,934,853 | | 2,406,853 |
| c) Revenue reserves | | | | |
| cd) Other revenue reserves | 46,429 | 46,429 | | 46,429 |
| d) Net retained profits | | 613,077 | | 1,157,882 |
| | | | 3,040,360 | 4,057,165 |
| **Total liabilities and equity** | | | 49,773,351 | 48,447,022 |
| | | | | |
| **Contingent liabilities** | | | | |
| b) Guarantees | | 74,151 | | 85,032 |
| | | | 74,151 | 85,032 |
| **Other obligations** | | | | |
| c) Irrevocable loan commitments | | 184,753 | | 214,597 |
| | | | 184,753 | 214,597 |

## Income statement of UBS Europe SE for the financial year 2021

| *EUR thousand* | | | | 2021 | 2020 |
|---|---|---|---|---|---|
| Interest income from | | | | | |
| a) Lending and money market transactions | | 15,534 | | | -10,123 |
| *thereof: negative interest income from lending and money market transactions* | *112,841* | | | | *187,399* |
| b) Fixed-income securities and government-inscribed debt | | 993 | | | 18,814 |
| | | | 16,527 | | 8,691 |
| Interest expense | | | 46,502 | | -12,852 |
| *thereof: negative interest expense* | *84,616* | | | | *164,465* |
| | | | | -29,975 | 21,543 |
| Current income from | | | | | |
| a) Shares and other variable-yield securities | | 72,805 | | | 60,553 |
| b) Equity investments | | 13 | | | 15 |
| c) Investments in affiliated companies | | 8,874 | | | 9,066 |
| | | | | 81,692 | 69,634 |
| Commission income | | | 1,256,475 | | 1,191,110 |
| Commission expense | | | 467,061 | | 352,463 |
| | | | | 789,414 | 838,647 |
| Net trading income / expense | | | | 77,264 | -56,150 |
| *thereof: Expenses from the allocation to the fund for general banking risks* | | | *-8,589* | | *0* |
| Other operating income | | | | 200,230 | 197,011 |
| General administrative expenses | | | | | |
| a) Personnel expenses | | | | | |
| aa) Wages and salaries | | 396,552 | | | 373,877 |
| ab) Social security contributions, pensions and other benefit costs | | 64,264 | | | 62,798 |
| *thereof: for pensions* | *27,546* | | | | *29,916* |
| | | | 460,816 | | 436,675 |
| b) Other administrative expenses | | | 350,970 | | 439,669 |
| | | | | 811,785 | 876,344 |
| Amortization, depreciation and write-downs of intangible assets and property and equipment | | | | 21,864 | 22,897 |
| Other operating expenses | | | | 83,251 | 46,907 |
| Write-downs and allowances on demands due and certain securities as well as allocations to provisions for possible loan losses | | | | 0 | 11,219 |
| Income from write-up of amounts due and certain securities as well as from the reversal of provisions for possible loan losses | | | | 5,507 | 34,144 |
| Write-downs and allowances on equity investments, shares in affiliates and securities classified as fixed assets | | | | 0 | 2 |
| Income from write-ups on equity investments, shares in affiliates and securities classified as fixed assets | | | | 509 | 2,296 |
| Result from ordinary activities | | | | 207,741 | 149,756 |
| Income taxes | | | | 66,664 | 38,646 |
| *thereof: deferred taxes* | | | *0* | | *0* |
| Other taxes not disclosed under item 12 | | | | 0 | -31 |
| Net income for the year | | | | 141,077 | 111,141 |
| Profit carryforward from previous years | | | | 0 | 646,742 |
| Withdrawals from the capital reserve | | | | 472,000 | 400,000 |
| Net retained profit | | | | 613,077 | 1,157,883 |

# Notes

# Notes

## General

The financial statements for the fiscal year 2021 of UBS Europe SE, headquartered in Frankfurt am Main, Bockenheimer Landstraße 2-4, 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 fomrs 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 in principle compared to the prior year.

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

Amounts due from banks and customers are 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. The expected loss approach follows the concept of "expected loss". The calculation of expected loss for on and off-balance transactions is based on the parameters probability of default (PD), exposure at default (EAD) and loss given default (LGD). Write-downs and allowances and income from write-ups are in the profit and loss statements.

Securities held in the liquidity portfolio are measured at amortized cost according to the strict lower of cost or market principle. They are also 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".

Securities of the investment portfolio are measured at amortized cost according to the modified lower of cost or market principle.

Changes in the value of securities of the liquidity portfolio are recorded either as write-downs of and allowances on amountt due and certain securities as well as allocations to provisions for possible loan losses or as income from the write-up of amounts due and certain securities as well as from the reversal of provisions for possible loan losses. For securities of the investment portfolio, changes in the value are recognised either as write-downs of and allowances on equity investments, shares in affiliates and securities classified as fixed assets or income from write-ups on equity instruments, shares in affiliates and securities classified as fixed assets.

Option premiums and future margin payments for transactions that are not yet due as well as accrued interest income from interest rate swaps are recognized as other assets or other liabilities.

Financial instruments of the trading portfolio are measured at fair value minus a risk charge. The risk charge is calculated on the basis of the regulatory value-at-risk approach in such a way that the anticipated maximum loss from the trading portfolio will not be exceeded with a 99% probability over a holding period of 10 days. A historical observation period of one year is used.

If financial instruments are traded on an active market, the market price is used as fair value. Where no market prices are available on an active market, fair value is determined by various methods, including valuation models. Both the valuation methods and models selected and the parameters used depend on the individual product and are in line with market standards.

The change in fair value of financial instruments of the trading portfolio compared to the last reporting date or the acquisition costs (valuation gains/losses) is recorded as net income or net loss from the trading portfolio.

Current interest income and expenses from the trading business are shown as interest income. Dividend income from the trading portfolio is reported as current income from shares and other variable-yield securities.

Securities lending transactions do not involve the de-recognition 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.

Claims and liabilities from repos and reverse repos with central and bilateral counterparties and due on a daily basis are offset and reported on a net basis. Beyond that, an amount of EUR 11.1 with centrals and bilateral counterparties were not offset and reported on a gross basis due to a limited duration.

Equity investments and shares in affiliates are valued at acquisition cost or their lower fair value if the decline in value is expected to be permanent.

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. Interests on borrowings are not capitalized.

Low-value assets are either fully expensed in the year of acquisition (with a net acquisition cost of up to and including EUR 250), or depreciated on a straight-line basis by 5 years (assets costing more than EUR 250 up to and including EUR 1,000).

Prepaid expenses and deferred income include payments which will be recognized in the income statements in future fiscal years.

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 rate for German branches is 0.3 comprising corporate income tax of 0.2 plus 0.1 solidarity surcharge plus an average trade tax rate. Deferred taxes in foreign branches are calculated with the applicable statutory tax rates which are in the range of 0.2 and 0.3.

Liabilities are stated at the settlement value with differences between the issuing amount and the settlement amount deferred over the respective term.

The pension and similar obligations are calculated in an actuarial report (using the projected unit credit method) applying the 2018 G mortality tables of Dr. Heubeck. They are discounted using the average market interest rate published by Deutsche Bundesbank 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 calculation the settlement value for provisions, all identifiable risks and uncertain liabilities were taken into account in accordance with prudent business judgment.

The settlement value of the other provisions is calculated taking future price and cost increases into account. Provisions with a residual term of more than one year are 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 are taken into consideration in measuring provisions, which were thus presented on a net basis.

Subordinated liabilities are stated at the settlement value.

Forward and other derivative transactions were used both to hedge the fair value of positions and for trading purposes. Trading portfolio is measured at fair value minus a risk charge. Derivatives of the non-trading portfolio are 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 (IDW AcP BFA 3).

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. The majority of the foreign currency transactions are hedged by concluding matching offsetting transactions in the same currency. Expenses and income from currency translation is recorded in the income statement under "other operating income" or "other operating expenses" respectively.

Contingent liabilities are reported under the balance sheet statement at their nominal amount, less risk provisioning if necessary.

The disclosure of negative interest income or expenses in the profit and loss statement depends on the host contract. Negative interest rates related to financial assets will lower the interest income and negative interest for financial liabilities reduces the interest expenses.

### 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 2021, 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 16 October 2017 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 cost. As of the balance sheet date, there was no net obligation. No provisions were therefore recognized.

## Hedge accounting

In the past, the Bank had issued structured financial instruments in the form of certificates. 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. The market risks relating to the issued instruments were fully hedged by 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 instrument issued. In the Bank's financial statements, the underlying instrument and embedded derivative are reported together under securitized liabilities. Furthermore, the Bank had issued note loans, which were also fully hedged by offsetting transactions with UBS AG, London Branch, and designated as hedging transactions. These transactions are reported as liabilities to customers/banks. Hedges, which were valued using the net method, were accounted for at the issue price taking accrued interest and discounts into account.

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.

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

# Notes to the balance sheet

## Maturity structure of amounts due from banks and customers

**Maturity structure**

| *EUR thousand* | 31.12.2021 | 31.12.2020 |
|---|---|---|
| **Other amounts due to banks** | **24,124,769** | **22,642,324** |
| with a residual term of | | |
| three months or less | 22,915,950 | 21,492,218 |
| more than three months and up to one year | 647,926 | 1,015,879 |
| more than one year and up to five years | 435,413 | 25,062 |
| more than five years | 125,480 | 109,167 |
| **Amounts due to customers** | **6,693,900** | **6,841,270** |
| with a residual term of | | |
| three months or less | 2,163,085 | 2,394,396 |
| more than three months and up to one year | 935,674 | 1,637,360 |
| more than one year and up to five years | 565,170 | 297,802 |
| more than five years | 36,762 | 27,602 |
| with an indefinite term | 2,993,209 | 2,484,110 |

## Amounts due from affiliates

**Amounts due from affiliates**

| *EUR thousand* | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Amounts due from bank | 8,764,141 | 4,616,192 |
| *thereof: due from UBS AG* | *8,568,379* | *4,389,939* |
| Amounts due from customers | 14,719 | 14,064 |

## Debt securities and other fixed-income securities

**Securities**

| | Listed | | Not listed | |
|---|---|---|---|---|
| *EUR thousand* | 31.12.2021 | 31.12.2020 | 31.12.2021 | 31.12.2020 |
| Debt securities and other fixed-income securities | 1,577,488 | 1,451,838 | 4,292,211 | 5,965,311 |
| Shares and other variable-yield securities | 0 | 0 | 725 | 742 |
| **Total** | **1,577,488** | **1,451,838** | **4,292,936** | **5,966,053** |

Securities with a book value of EUR 1,658.7m are due in the year 2022.

Securities with a book value of EUR 2,512.4m and a fair value (market value) of EUR 2,503.1m are not valuated according to the lower of cost or market principle, because a long term and significant decline in value is not expected.

## Shares and other variable-yield securities

The position includes shares in a real estate fund.

## Trading portfolio

| *EUR thousand* | 31.12.2021 | 31.12.2020 |
|---|---|---|
| **Trading assets** | **4,673,649** | **5,560,280** |
| Derivative financial instruments | 1,215,442 | 1,941,670 |
| Debt securities and other fixed-income securities | 98,898 | 163,671 |
| Shares and other variable-yield securities | 3,360,946 | 3,458,996 |
| Risk charge | -1,638 | -4,057 |
| **Trading liabilities** | **2,331,508** | **2,782,149** |
| Derivative financial instruments | 1,438,673 | 2,184,755 |
| Liabilities (from short sales) | 892,835 | 597,394 |

## Equity investments and shares in affiliates

The equity investments and shares in affiliates do not contain negotiable or listed instruments.

**Equity investments pursuant to Sec. 285 No. 11 HGB**

| Company | Capital in EUR | Share of capital | Net incomen in EUR |
|---|---|---|---|
| UBS Fiduciaria SpA, Mailand** | 820,389.00 | 100,0% | 82,526.00 |
| UBS Gestión Sociedad Gestora de Instituciones de Inversión Colectiva SA, Madrid** | 11,558,481.19 | 100,0% | 7,143,601.75 |
| UBS Private Equity Komplementär GmbH, Frankfurt am Main* | 45,148.64 | 100,0% | 8,892.51 |

* Financial Statement as of 31.12.2020
**Financial Statement as of 31.12.2021

## Trust assets and liabilities

Trust assets consist solely of trust loans while trust liabilities consist solely of liabilities to customers.

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 EUR 17.1m and liabilities to customers in the same amount.

## Statement of changes in fixed assets

**Changes in fixed assets**

| *EUR thousand* | Shares and other variable-yield securities | Equity investments | Shares in affiliates | Goodwill | Other intangible assets | Property and equipment |
|---|---|---|---|---|---|---|
| **Book value 01.01.2021** | **663** | **619** | **10,008** | **100,947** | **763** | **18,784** |
| **Acquisition or production cost** | | | | | | |
| Opening balance | 5,086 | 619 | 10,008 | 143,093 | 23,517 | 104,544 |
| Additions | | | | | 307 | 3,577 |
| Disposals | | | | | 1,444 | 20,975 |
| Reclassifications | | | | | | |
| Translation differences | | | | 5,507 | 7 | 435 |
| Closing balance | 5,086 | 619 | 10,008 | 148,600 | 22,387 | 87,581 |
| **Cumulative write-downs** | | | | | | |
| Opening balance | 4,423 | | | 42,146 | 22,754 | 85,762 |
| Additions | | | | 14,487 | 493 | 6,884 |
| Write-ups | | | | | | |
| Disposals | | | | | 1,444 | 20,717 |
| Translation differences | | | | 1,783 | 4 | 364 |
| Reclassifications | | | | | | |
| Closing balance | 4,423 | | | 58,416 | 21,807 | 72,293 |
| **Book value 31.12.2021** | **663** | **619** | **10,008** | **90,184** | **580** | **15,288** |

## Intangible assets, goodwill and property and equipment

The goodwill stems from the acquisition of ETRA SIM S.p.A. in 2005 and 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 regarding the acquisition of ETRA SIM S.p.A. and SPB Unit Italia has a remaining useful life of five and three years respectively.

In October 2018 UBS Europe SE completed the takeover of Nordea's Luxembourg-based private banking business. This transaction resulted in the initial recognition of a goodwill amounting to EUR 116.9m. The remaining useful life is seven years.

All of the other intangible assets comprise purchased software.
As of the end of fiscal year, property and equipment exclusively comprise furniture, fixtures and office equipment.

### Other assets

Other assets mainly include variation/initial margins (EUR 1,500.7m), receivables from the tax office (EUR 92.0m) and receivables from group allocations (EUR 34.2m).

### Prepaid expenses

Prepaid expenses contain income from advance payments of non-staff operating costs (EUR 3.4m).

### Maturity structure of liabilities to banks and customers

**Maturity structure**

| *EUR thousand* | 31.12.2021 | 31.12.2020 |
|---|---|---|
| **Liabilities to banks** | **14,883,862** | **13,515,350** |
| with an agreed term or notice period of | | |
| three months or less | 12,510,346 | 11,318,338 |
| more than three months and up to one year | 2,362,483 | 2,162,779 |
| more than one year and up to five years | 10,065 | 32,999 |
| more than five years | 968 | 1,234 |
| **Liabilities to customers** | **332,330** | **217,161** |
| with an agreed term or period of notice of | | |
| three months or less | 193,772 | 61,135 |
| more than three months and up to one year | 13,077 | 26,409 |
| more than one year and up to five years | 0 | 20,450 |
| more than five years | 125,480 | 109,167 |

### Liabilities to affiliates

**Liabilities to affiliates**

| *EUR thousand* | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Liabilities to banks | 9,979,911 | 7,737,510 |
| *thereof: liabilities to UBS AG* | *9,649,069* | *7,504,008* |
| Liabilities to customers | 159,290 | 130,763 |

## Debt securities issued

All debt securities issued are due in 2022.

## Other liabilities

Other liabilities primarily comprise liabilities from variation/initial margins (EUR 858.5m), intragroup settlements (EUR 29.1m) and liabilities to the tax office (EUR 65.3m) and negative replacement values (EUR 100.3m)

## Deferred income

Deferred income primarily contains 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.

In July 2021, UBS ESE implemented a new defined benefit plan for its employees in Germany joining post 19.06.2018. Furthermore, new contributions for employees that joined until 19.06.2018 will also move to the new pension plan (with some special regulations). The plan is hosted off-balance sheet by an external fiduciary (Contractual Trust Arrangement) and is funded including a premium guarantee. The plan is a security linked contribution orientated benefits plan, the retirement benefits will be the result of the investment of the contributions at the capital markets. The other existing defined benefit pension plans remain active for all eligible employees. All retirement plan eligibilities which have been accumulated up to the implementation of the new plan will remain unchanged.

The following parameters were used to calculate the pension provisions:

**Actuarial assumptions**

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Interest rate | 1,87% | 2,30% |
| Salary and income threshold progression rate | 2,39% | 2,25% |
| Pension increases | | |
| for old commitments | 1,8% | 1,70% |
| for new commitments | 1,00% | 1,00% |
| Average turnover men | 13,10% | 13,80% |
| Average turnover women | 13,80% | 13,30% |

* issued before 1 January 1999

In accordance with Sec. 253 (6) HGB, the difference arising between discounting using a 10-year average interest 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 in the amount of 1.35% as published by Deutsche Bundesbank 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 201.9m and EUR 132.4m, respectively.

Applying the corresponding 10-year average interest rate with a remaining term of 15 years in the amount of 0.0, the pension provision and the deferred compensation provision would amount to EUR 188.2m and EUR 124.1m, respectively. This leads to a difference for pensions and deferred compensation of EUR 22.0m, which may not be distributed or transferred.

In accordance with Sec. 246 (2) sentence 2 HGB, the plan assets held to cover pension obligations are netted against the provisions created for this purpose. As at 31 December 2021, the following values were recorded for these items before offsetting:

| *EUR thousand* | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Settlement amount | 1,617 | 0 |
| Fair value of the plan assets | 1,617 | 0 |

Prior to offsetting, income from plan assets amounted to EUR 36k. The historical cost of the plan assets amounted to EUR 1.581k.

### Other provisons

Other provisions include the following main items:

| *EUR thousand* | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Bonuses | 109,993 | 97,175 |
| Legal risks and damages claims | 33,860 | 38,763 |
| Accrual for untaken holidays | 9,620 | 10,376 |
| Restucturing | 15,011 | 8,004 |
| Early retirement obligations | 8,665 | 4,195 |
| Storage costs | 4,004 | 3,299 |
| Fee reimbursement claims from retrocessions | 2,854 | 3,813 |
| **Total** | **184,006** | **165,624** |

### Subordinated liabilities

Terms of the subordinated liabilities are as follows:

| Currency | Nominal amount | Interest Rate | Due date | Capital |
|---|---|---|---|---|
| EUR | 290,000,000.00 | Euribor 3M + 466 BP | indefinite | Additional Tier 1 Capital |
| EUR | 500,000,000.00 | Euribor 3M + 105 BP | 12 June 2023 | MREL eligible |
| EUR | 975,000,000.00 | Euribor 3M + 125 BP | 27 February 2024 | MREL eligible |
| EUR | 275,000,000.00 | Euribor 3M + 103 BP | 14 May 2029 | MREL eligible |
| EUR | 400,000,000.00 | Euribor 3M + 74 BP | 5 February 2031 | MREL eligible |
| USD | 300,000,000.00 | SOFR + 134 BP | 3 November 2032 | MREL eligible |

The interest rate contains a floor component at reference rate Euribor with 0.00%. Any option of extraordinary termination persists to the issuer exclusively according to CRR regulation.

Interest income for subordinated liabilities was EUR 24.3m in the financial year 2021.

### Fund for general banking risk

The Bank allocated an amount of EUR 8.6m (previous year: 0) from the net income of the trading portfolio pursuant to Sec. 340 e (4) HGB to the fund for general banking risks in the reporting year 2021.

### Subscribed capital and shares

The subscribed capital of EUR 446,001,000.0 is divided into 446,001,000.0 registered shares that are wholly owned by UBS AG, Zurich.

### Capital and revenue reserves

An amount of EUR 472.0m was transferred from the capital reserve pursuant to Sec. 272 (2) No. 4 HGB to the net retained profit. Following this, capital reserves amount to EUR 1,934.9m.

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 47.0m as of 31 December 2021.

EUR 22.0m 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 note on the pension provisions).

In October 2021, the entire net retained profit reported for fiscal year 2020 was distributed to the shareholder.

The revenue reserves are unchanged at EUR 46.4m.

### Contingent liabilities and other obligations

Contingent liabilities comprise guarantees provided, thereof EUR 2.5m in favour of credit institutions of UBS group. There is no significant call risk.

All other obligations are irrevocable loan commitments.

### Repurchase agreements

The book value of assets reported on the balance sheet and sold subject to a repurchase agreement amount to EUR 116.8m.

### Foreign currency assets and liabilities

Foreign currency assets totaled EUR 15,837.9m, foreign currency liabilities totaled EUR 17,554.4m and foreign currency position below the line item totaled EUR 195.0m.

# Notes to the income statement

## Net interest income

Net interest income contains EUR 84.6m in negative interest paid and EUR 113.0m in negative interest received.

Negative interest of EUR 14.2m was paid to Deutsche Bundesbank as a result of intragroup euro clearing, while negative interest in the same amount was collected from the parent company UBS AG.

## Current income from shares, equity investments and investments in affiliated companies

Current income is primarily attributable to dividend payments from the trading portfolio of EUR 72.8m.

Furthermore, the dividend payment of EUR 8.8m received from UBS Gestión Sociedad Gestora de Instituciones de Inversión Colectiva SA, Madrid (Spain) is included.

## Administrative and agency services

The following services were provided for third parties:

- Custody account management
- Wealth management
- Fund brokerage
- Consulting on equity investments and mergers
- Securities comission business

The income from these services is included in comission income.

## Other operating income

This item primarily contains group allocations (EUR 79.5m), reversals of provision (EUR 7.7m) and the revenue from the sale of the asset management business in Austria (EUR 89.5 m.).

## Other operating expenses

This item mainly includes payments and provision allocations in connection with customer complaints resulting in court proceedings (EUR 3.2m) and expenses of EUR 7.0m from unwinding discounts on provisions as of 31 December 2021 (thereof pension obligations and deferred compensation of EUR 6.6m) and expenses from currency translation (EUR 0.0m.

## Geographical breakdown of income

**Geographical breakdown**

| *EUR thousand* | | | | 31.12.2021 |
|---|---|---|---|---|
| | Net interest income | Current income from shares, equity investments and investments in affiliated companies | Net commission income | Other operating income |
| Germany | -18,185 | 72,818 | 689,799 | 48,098 |
| Luxembourg | 18,513 | 0 | 181,649 | 17,217 |
| Italy | 8,993 | 81 | 186,437 | 16,341 |
| Spain | 5,858 | 8,793 | 93,792 | 9,609 |
| France | 0 | 0 | 53,331 | 9,260 |
| Netherlands | 0 | 0 | 15,933 | 2,743 |
| Austria | 1,347 | 0 | 16,320 | 89,918 |
| Sweden | 0 | 0 | 17,574 | 2,306 |
| Switzerland | 0 | 0 | 0 | 4,720 |
| Poland | 0 | 0 | 1,639 | 11 |
| Denmark | 0 | 0 | 0 | 8 |
| **Total UBS Europe SE** | **16,526** | **81,692** | **1,256,474** | **200,231** |

Net income or net expense from trading book positions relates exclusively to Germany.
Other disclosures for the fiscal year 2021 is contained in the country-specific reporting in accordance with Sec. 26a KWG ["Kreditwesengesetz": German Banking Act].

# Other notes

## Proposal for the appropriation of net retained profit

The closing balance sheet of UBS Europe SE for 2021 reports a net retained profit of EUR 613.1m.

The Management Board proposes the distribution of the full amount of the net retained profit reported as of 31 December 2021 to the shareholder. This corresponds to a dividend of EUR 1.37 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 2033 for all buildings come to EUR 109.4m, EUR 29,9m of which relates to the Opernturm building (UBS group).

Obligations for subsequent capital contributions may occur from the membership in the deposit protection schemed of "Bundesverband deutscher Banken" and "Entschädigungseinrichtung deutscher Banken GmbH" ("EdB").

## Contingent liabilities

There were no further contingent liabilities as of 31 December 2021.

## Derivative financial instruments at fair value

The table below shows the book values of the derivative financial instruments measured at fair value, that are recognized as trading assets and trading liabilities.

**Derivative financial instruments measured at fair value**

| *EUR thousand* | | | 31.12.2021 |
|---|---|---|---|
| | | | Fair Value |
| | Nominal amount | positive | negative |
| **Currency transactions** | | | |
| Foreign currency forward transactions | 275,718 | 2,925 | 3,453 |
| Interest/Currency swaps | 38,239,824 | 1,078,124 | 1,270,942 |
| Foreign currency options | 1,126,035 | 22,726 | 30,201 |
| Other foreign currency transactions | 3,198 | 2,093 | 1,978 |
| **Total** | **39,644,775** | **1,105,868** | **1,306,574** |
| **Interest rate transactions** | | | |
| Forward transactions | 16,029,569 | 6,478 | 5,985 |
| Interest rate swaps | 0 | 0 | 0 |
| **Total** | **16,029,569** | **6,478** | **5,985** |
| **Equity/Index-related transactions** | | | |
| Equity/Index options | 2,085,014 | 54,045 | 52,778 |
| Equity/Index swaps | 105 | 0 | 0 |
| Other contracts | 29,160 | 4,309 | 7,409 |
| **Total** | **2,114,279** | **58,354** | **60,187** |
| **Other transactions** | | | |
| Credit derivatives | 2,077,261 | 9,956 | 24,307 |
| Other contracts | 4,244,917 | 34,787 | 41,619 |
| **Total** | **6,322,178** | **44,743** | **65,926** |

## Hedges

The Bank issued structured financial instruments which are offered in the form of certificates. The Bank also issues plain vanilla products, which it offers its customers as note loans. 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 position are grouped together with the offsetting transactions to form hedges. A total volume of EUR 32.1m (book value) is hedged with these transactions.

Hedge transactions protect against currency risks with a fair value of EUR 3.9m. In addition, hedges protect agains interest rate risks with a fair value of EUR 32.0m.

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

## Derivatives used as hedges for issuing transactions

**Derivatives used as hedges for issuing transactions**

| *EUR thousand* | | | 31.12.2021 |
|---|---|---|---|
| | | | Fair Value |
| | Nominal amount | positive | negative |
| Equity/Index swaps | 3,493 | 0 | 3,070 |

## Derivative financial instruments not measured at fair value

The table below shows the volume of derivative financial instruments of the banking book. Book values of these transactions are shown as other assets (EUR 39.5m) and other liabilities (EUR 47.2m).

**Derivative financial instruments not measured at fair value**

| *EUR thousand* | | | 31.12.2021 |
|---|---|---|---|
| | | | Fair Value |
| | Nominal amount | positive | negative |
| **Currency transactions** | | | |
| Foreign currency forward transactions | 44,044,929 | 227,287 | 226,855 |
| Interest/Currency swaps | 37,126,222 | 178,450 | 199,061 |
| Foreign currency options | 95,406 | 184 | 184 |
| **Total** | **81,266,557** | **405,921** | **426,101** |
| **Equity/Index-related transactions** | | | |
| Equity/Index-related option | 2,898,270 | 46,655 | 46,682 |
| Equity/Index-swaps | 15,257 | 14 | 3,084 |
| Other | 0 | 0 | 0 |
| **Total** | **2,913,528** | **46,669** | **49,766** |
| **Other transactions** | | | |
| Other contracts | 436,146 | 2,043 | 2,089 |
| **Total** | **436,146** | **2,043** | **2,089** |

Fair value is determined by various methods. Foreign currency forward transactions are valued on the basis of market-based spot exchange rates, whereas options are valued with standard market option price models and swap contracts are valued using discounted cash flow models. Both the valuation models selected and the parameters used depend on the individual product and are in line with market standards.

## Derivatives and forward transactions used in the agency business

**Derivatives and forward transactions used in the agency business**

| *EUR thousand* | | | 31.12.2021 |
|---|---|---|---|
| | | | Fair Value |
| | nominal amount | positive | negative |
| **Currency transactions** | | | |
| Foreign currency forward transactions | 27,889,724 | 228,078 | 228,076 |
| Interest/Currency swaps | 233,278,142 | 3,791,149 | 3,806,504 |
| Foreign currency options | 296,097 | 5,043 | 5,043 |
| **Total** | **261,463,963** | **4,024,271** | **4,039,624** |
| **Interest rate transactions** | | | |
| Forward transactions | 783,859 | 44 | 44 |
| Interest options | 124,794,465 | 974,833 | 958,672 |
| Interest swaps | 0 | 0 | 0 |
| **Total** | **125,578,324** | **974,877** | **958,716** |
| **Equity/Index-related transactions** | | | |
| Equity forward transactions | | | |
| Equity/Index options | 11,411,767 | 1,114,210 | 1,114,247 |
| Equity/Index swaps | 3,493,599 | 53,579 | 53,579 |
| Other | 1,148,549 | 49,517 | 49,505 |
| **Total** | **16,053,916** | **1,217,306** | **1,217,331** |
| **Other transactions** | | | |
| Credit derivatives | 1,479,155 | 11,230 | 11,247 |
| Other | 964,454 | 32,315 | 32,315 |
| **Total** | **2,443,609** | **43,544** | **43,562** |

### 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 disclosure

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 UBS Group, UBS AG in Zurich and UBS Europe SE and their immediate family members are treated as related parties.

The following financial transactions are performed with related parties:

– 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)
– Nostro/Vostro accounts
– Credit facilities
– Guarantees
– Procurement/provision of intragroup services

All transactions were concluded at arm's length.

### Significant events after the balance sheet date

In October 2021, UBS Europe SE announced that it will sell its Wealth Management business in Spain. The closing of the transaction is expected for the third quarter 2022.

There is a forecast uncertainty driven by the current Ukraine conflict, where the effects are completely unpredictable at this point in time. In this context, we refer to our comments in the chapters "Opportunities and risk report" and "Forecast report" in the Management Report.

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.

### Group affiliation

UBS Europe SE is included in the basis of consolidation of UBS Group AG. 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 (IFRS) 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 2021 of UBS Group AG, Zurich, are available on the UBS website and are published in German in the Electronic German Federal Gazette ["Elektronischer Bundesanzeiger"] by UBS Europe SE, 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 IFRS. 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.

### Disclosure

The disclosure report for the year ended 31 December 2021 is published on the UBS Europe SE website at *ubs.com/de/en/ubs-germany/financial-reports.html*.

## Governing bodies

### *Supervisory Board*

**Prof. Dr. Reto Francioni (since 7th March 2022)**
Chairman
Consultant, Brugg, Switzerland

**Dr. Martin Christof Wittig (until 6th March 2022)**
Chairman
Consultant, Samedan, Switzerland

**Roland Koch (until 26th June 2021)**
Chairman
Independent attorney,
Former Prime Minister of the State of Hesse, Frankfurt, Germany

**Iqbal Khan (since 1st February 2021)**
Deputy chair,
Co-President Global Wealth Management and President EMEA, UBS AG, Zurich, Switzerland

**Dr. Sabine Keller-Busse (until 31st January 2021)**
Group Chief Operating Officer, UBS AG, Zurich, Switzerland

**Miriam Gonzalez-Durantez (until 31st December 2021)**
Of-Counsel, Washington DC, United States of America

**Silke Alberts***
Chairman of the Works Council, UBS Europe SE, Frankfurt, Germany

**Jean-Marc Lehnertz*,**
Business Risk Service, UBS Europe SE, Luxembourg

**Jonathan (Bobby) Magee**
Consultant, Guildford, United Kingdom

**Beatriz Martin Jimenez**
Head Group Treasury, UBS AG, London Branch, United Kingdom

**Francesco Stumpo***
Wealth Management IT Application Delivery, UBS Europe SE, Milan, Italy

**Gregor Pottmeyer (since 27th June 2021)**
CFO Deutsche Börse, Frankfurt, Germany

**Caroline Stewart (since 1st January 2022)**
CFO Investment Bank, UBS Business Solutions, London Branch, United Kingdom

*Employee representatives

In accordance with the resolution of the Extraordinary General Meeting dated 19 November 2020, remuneration totaling EUR 240k was paid in 2021 for the fiscal year 2020 to the employee representatives on the Supervisory Board. Remuneration totaling EUR 755k was paid to the independent members of the Supervisory Board.

*Management Board*

**Christine Leitner Novakovic**
Chairman of the Board
Head Global Wealth Management, UBS Europe SE, Frankfurt, Germany

**Georgia Paphiti**
Chief Financial Officer, UBS Europe SE, Frankfurt, Germany

**Dr. Andreas Przewloka**
Chief Operating Officer, UBS Europe SE, Frankfurt, Germany

**Tobias Vogel**
Head Investment Bank and Global Wealth Management Germany, UBS Europe SE, Frankfurt, Germany

**Heinrich Baer**
Head Global Wealth Management Luxembourg, Nordics & Austria and Asset Management, UBS Europe SE, Frankfurt, Germany

**Pierre Philippe Chavenon**
Chief Risk Officer, UBS Europe SE, Frankfurt, Germany

**Denise Bauer-Weiler (since 1st October 2021)**
Head Group Compliance, Regulatory & Governance, UBS Europe SE, Frankfurt

Remuneration for the members of the Management Board amounted to EUR 14.2m in the fiscal year. The amount includes the basic salary, variable remuneration and other remuneration for the period during which they were a member of the Management Board.

EUR 1.7m 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 64.6m on 31 December 2021.

Employees

The average number of employees during 2021 was 2,059, thereof 818 female and 1,241 male employees.

As of 31 December 2021, the headcount was 2,020 and 18 employees were on parental leave.

**Employees**

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| … by locations | | |
| Denmark | 7 | 5 |
| Germany | 702 | 680 |
| France | 80 | 73 |
| Italy | 463 | 485 |
| Luxembourg | 449 | 458 |
| Netherlands | 34 | 31 |
| Austria | 0 | 65 |
| Poland | 2 | 3 |
| Sweden | 31 | 25 |
| Switzerland | 2 | 2 |
| Spain | 250 | 252 |

**Employees**

| | 31.12.2021 | 31.12.2020 |
|---|---|---|
| … by business division | | |
| Asset Management | 34 | 35 |
| Global Wealth Management | 958 | 950 |
| Investment Bank | 253 | 224 |
| Operating office | 405 | 347 |
| Other | 370 | 523 |

Frankfurt / Main, 29th April 2022

**UBS Europe SE**
**Management Board**

Christine Novakovic    Dr. Andreas Przewloka    Heinrich Baer

Pierre Chavenon    Georgia Paphiti    Tobias Vogel    Denise Bauer-Weiler

# Management Report

# Business Report

## Divisions and organization

UBS Europe SE, based in Frankfurt am Main, was created in 2016 by merging several European wealth management subsidiaries of UBS Group into a pan-European entity. UBS Europe SE today is one of the leading financial services providers for wealth management in Europe, leveraging strong cross-divisional synergies with the Investment Bank and Asset Management.

The bank is a direct 100% subsidiary of UBS AG, Zurich. Its organizational structure includes the business divisions Global Wealth Management (GWM), Investment Bank (IB), Asset Management (AM) and Group Functions (GF).

As a universal bank within the scope of the German Banking Act (KWG) and as an SE under European law, its administrative bodies are the Management Board, the Supervisory Board (including Committees) and the Annual General Meeting.

UBS Europe SE encompasses nine branches (Italy, Spain, Luxembourg, Sweden, Denmark, Netherlands, Switzerland, Poland, France), as well as six offices in Germany - including UBS Europe SE's headquarters in Frankfurt am Main. Further, UBS Europe SE signed an agreement to sell its domestic GWM business (incl. Group Functions) in Austria; the deal has been concluded (and the branch closed) in Q3 2021.

### Global Wealth Management

UBS Europe SE has Global Wealth Management as its core business, with High Net Worth and Ultra-High Net Worth / Group Family Office clients representing the core of UBS Europe SE's client base, and the segment on which to focus growth. In order to ensure demand-based client care while acting economically, UBS Europe SE's Global Wealth Management clients are divided up into the following segments according to their investible capital assets: Affluent (EUR 0.25 to 2m), High Net Worth (EUR 2 to 50m), Ultra-High Net Worth / Group Family Office (generally considered to be clients with more than EUR 50m in investable assets, with some market-driven differentiation), Financial Intermediaries (FIM), Latin America (LatAm), Corporate and Institutional Clients (CIC).

UBS Europe SE provides its clients with a broad range of solutions. UBS Manage is the mandated discretionary portfolio management solution. Clients delegate investment decisions and portfolio management to UBS based on an agreed investment strategy. UBS Advice is our mandated advisory solution. We agree with clients on investment objectives and strategy, regularly monitor portfolio positions against them, and notify clients in case we find deviations and recommend specific solutions to bring portfolios back in line. UBS Transact is our mandated solution for clients looking for access to financial markets and brokerage and custody services as well as access to generic research.

In September 2020, UBS became the first major global financial institution to make sustainable investments the preferred solution for private clients investing globally. This reflects our belief in sustainable and impact investing from a performance perspective and increased client demand for relevant advice and solutions. UBS ESE also offers Wealth Planning services that give access to a wide range of solutions to meet the needs of our clients related to succession, financial, retirement and relocation planning while ensuring that their financial and lifestyle goals can be achieved. To meet some of those needs, life insurance solutions can be offered and distributed in accordance with (country's) approved distribution models. UBS ESE is licensed for life insurance distribution in Germany and passports its license to Italy and Luxembourg. To address clients' lending needs, UBS ESE offers Lombard loans, overdrafts, guarantees and mortgages. The offering varies from country to country. In some countries GWM specialists, collaborating with the IB service clients, mainly entrepreneurs owning small and mid-size companies, in corporate advisory matters.

Additionally, UBS Europe SE acts as a strategic business partner for Financial Intermediaries in Germany, Luxembourg, Spain, Italy, and Latin America. It offers them professional investment advisory services, a global banking infrastructure and tailored solutions, thus helping them to advise their end-clients more effectively.

### Investment Bank

The Investment Bank business division is organized into the following units: Global Banking (GB), and Global Markets (GM). They are governed by executive, operating, risk, and asset and liability committees with each business unit organized globally by product.

The Investment Bank provides corporate, institutional and wealth management clients with expert advice, innovative financial solutions, outstanding execution and comprehensive access to the world's capital markets. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities. It offers financial advisory and capital markets, research, equities, foreign exchange, private markets and tailored fixed income services in rates and credit through its two business units, Global Banking and Global Markets.

The Investment Bank division of UBS Europe SE is committed to deliver an excellent performance with Corporate and Institutional Clients driving ability to add value across the Group. The Investment Bank's key priority is disciplined growth in the capital-light advisory and execution businesses, while accelerating its digital transformation.

The Investment Bank has a global reach and principal offices in the major financial hubs. This is critical given the cross-border nature of the Investment Bank clients who demand a global offering. Competing firms are active in many of the Investment Bank's markets, but the Investment Bank's strategy differentiates with its focus on leadership in the selected areas where the division has chosen to compete, and a business model that leverages talent and technology rather.

The UBS Group strategy for the Investment Bank remains focused on returns by driving profitable growth, by further optimizing resources. This maintains a capital light business model that is focused on advice and execution, with a commitment to only consume up to one-third of Group resources. This requires the Investment Bank to be agile and selective in how capital resources are deployed, and a centralized risk management approach to increase diversification benefits, funding costs and optimize available netting sets.

## Asset Management

The Asset Management activities within UBS Europe SE are focusing mostly on client coverage. Hence the business model in each country is geared towards providing client service and product sales. The main client segments in each country are institutional clients and wholesales clients. In some markets the internal wealth management channel is covered in addition. Examples for institutional clients are pension funds, corporates and insurance companies, examples for wholesale clients are banks, Fund-of-Funds, IFAs and insurance companies. These segments are covered by Client Relationship Managers, being partly supported by Client Service colleagues. To reflect the increasing demand and sophistication of clients with respect to passive products, some locations have in addition product specialists for ETF/Passive. Furthermore, some locations have Real Estate specialists supporting management of existing Real Estate investments of UBS Asset Management products.

# Strategy

UBS Europe SE's strategy is centered on its leading Global Wealth Management and Investment Bank businesses in Europe with a unique franchise. UBS Europe SE focuses on businesses that have a strong competitive position in their targeted markets, are capital efficient, and have an attractive long-term structural growth and profitability outlook.

UBS Europe SE's Global Wealth Management businesses benefit from significant scale in an industry with attractive growth prospects, increasingly high barriers to entry, and its leading position across the attractive High Net Worth and Ultra High Net Worth / Global Family Office client segments. The partnership between the Global Wealth Management businesses and other businesses is a key differentiating factor and a source of competitive advantage.

On the Investment Bank side, UBS Europe SE is committed to deliver an excellent performance with Corporate and Institutional Clients driving ability to add value across the Group. The Investment Bank's key priority is disciplined growth in the capital-light advisory and execution businesses while accelerating its digital transformation.

UBS Europe SE aims to driver higher and superior returns by growing each of its businesses and leveraging its unique, integrated and complementary business portfolio and geographic footprint in Europe. UBS Europe SE’s business divisions are competitive in those fields that matter most to clients, but they would not be as successful on a stand-alone basis. Therefore, a key priority is further embedding a one-firm approach across UBS Europe SE. The firm remains committed to improving efficiency and productivity, keeping operating costs flat, while growing revenues and funding to meet regulatory requirements and improve efficiency. Continued investments in technology, platforms and risk management systems are crucial for growing UBS Europe SE’s franchise, generating attractive returns in the future and improving client experience.

The following key levers have been defined to drive profitability:

## Global Wealth Management

The aim is to increase profit before tax in the Global Wealth Management business and drive higher pretax margins by elevating the firm’s leading franchise. The business is adjusting its coverage across the client spectrum to deliver more tailored services and solutions. It is reorganizing itself to be closer to clients, in order to increase time spent with them, empowering regions, improving responsiveness and speed to market, as well as delivering on all of the firm’s capabilities through expanded strategic partnerships with the Investment Bank and Asset Management. Furthermore, the business is expanding its product offering while becoming more efficient, leveraging scale through partnerships and optimizing processes to increase productivity.
Priorities:

- Be the primary wealth manager for High Net Worth and Ultra-High Net Worth / Group Family Office clients in Europe
- Leverage leading investment advice, lending and wealth planning capabilities
- Further enhance business through cross-divisional synergies with the Investment Bank and Asset Management

## Investment Bank

The Investment Bank intends to improve returns by driving profitable growth, by further optimizing resources and through cross-divisional collaboration. It will maintain its capital-light business model that is focused on advice and execution and leverages its digital capabilities. Together with other business divisions and through external partnerships the aim is to deliver market-leading digital research and banking capabilities to clients.
Priorities:

- Global Banking: focus resources on selected markets, sectors and clients, defending traditional business whilst scaling up non-traditional businesses
- Global Markets: One Client focus, top liquidity provider, differentiated content, bespoke solutions, dynamic resource allocation
- Cross-divisional partnership opportunities with Global Wealth Management

## Asset Management

A highly differentiated offering mix across alpha & alternatives and indexed & alternative beta products is provided by the Asset Management. It offers best-in-class capabilities to clients and prospects, within each of these areas. There are only a few firms worldwide that provide a comparable breadth as well as depth of capabilities and that are able to combine them to bring tailored solutions to clients globally. Therefore, the strategic goals for Asset Management within UBS ESE are in line with the overall UBS Asset Management strategy.

Priorities:

- Maintain strong performance across active products and diversity product offering.
- Leverage expertise in private markets and alternatives.
- Extend leading position with investment focus on China, Asia, Emerging Markets and SI.
- Prioritize client/centricity
- Drive operational excellence and simplify to increase efficiency and scale.

## Treasury

A series of financial resource optimization measures has already been completed since the inception of UBS ESE and the Brexit cross-border merger. However, further optimizations will be required going-forward, challenged due to ongoing developments such as Covid-19.
Priorities:
- The long term goal is to bring return on CET1 up to 8% over the next 5 years by targeted measures, incl. capital reductions
- Drive further large exposure optimization and GWM deposit optimization initiative

## Operations

ESE Operations is a strong and trusted partner to the Business and with the UBS clients. Operations delivers very good service, while managing risk all within a cost conscious environment. Operations also actively drives digital transformation to create further efficiencies to support the overall UBS ESE goals.
Priorities:
- Sustainable quality by ensuring and optimizing the service levels agreed with our stakeholders
- Continue to strengthen our control framework, operational resilience and risk compliance
- Deliver on the Operating Plan and continuing to identify further opportunities for financial savings
- Drive innovation and implement new digital capabilities in order to reduce operational complexity and further enhance the client experience

## Collaboration

UBS Europe SE wants to deliver more as one firm to its clients. The collaboration between business divisions is critical to the success of its strategy and is a source of competitive advantage. This collaboration also provides further revenue growth potential and enables the firm to better meet client needs; for example, in the Ultra-High Net Worth and Global Family Office space. Another area where collaboration between UBS Europe SE's business divisions can bring more value to clients is in sustainable finance. As the largest truly global wealth manager, it is the firms responsibility to take a leading role in shaping a positive future, and the goal is to be the financial provider of choice for clients who wish to mobilize capital toward the achievement of specific environmental or social outcomes. UBS Europe SE is shaping the landscape of sustainable finance by using thought leadership, innovation and partnerships to support clients in their sustainability efforts.
Priorities
- Priority clients initiative
- Cross-business dialogue
- Promotion of best practices

## Sustainability

Being one of Europe's largest managers of institutional as well as private wealth, UBS ESE plays an active role in shaping a sustainable future. UBS is fully committed towards its sustainability activities, through which it aims to maximize the positive impacts of such investments while mitigating negative effects. A growing range of finance products and services should guarantee to help clients who wish to mobilize capital towards the achievement of the 17 United Nations (UN) Sustainable Development Goals (SDGs) and the orderly transition to a low-carbon economy.
Priorities:
- Defend position as leader in sustainable finance
- Thought leadership in philanthropy and sustainable business practice
- Embrace sustainability as a fundamental investment driver
- Increase transparency, along with better disclosure and data around sustainability-related goals and metrics
- Sustainability in governance

## Digitalization

UBS Europe SE aims to drive improvements in firm-wide efficiency to fund growth and enhance returns. Continued optimization of processes, platforms, its organization and capital resources will help UBS Europe SE to achieve this. The firm will continue to invest in technology with the goal of improving efficiency and effectiveness, driving growth and better serving clients.
Priorities:
- Enhance user experience (for clients and staff)
- Reduce operational complexity
- Increase sustainability

## Talent, conduct and culture

At UBS it is believed that the right strategy and a strong culture drive strong performance. This conviction is expressed for several years in UBS "three keys to success". These Pillars, Principles and Behaviors underscore UBS strategy and culture, defining what it stands for as a firm and employer. In order to unlock the firm's potential, UBS embedded these tenets in its daily business and investment decisions as well as management practices and employee experience. Furthermore, UBS attaches great importance to a diverse workforce and inclusive culture in order to ensure long-term success, being crucial for understanding and relating to its equally diverse clients' needs.
Priorities:
- Diversity, equity and inclusion (DE &I)
- Conduct risk
- Training & education
- Talent development
- Physical and mental wellbeing
- Tone from the top

# 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 wealth management 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.

# Economic report

## Financial performance indicators

The key financial performance indicators (KPIs) of UBS Europe SE are aligned with the business objectives, focusing on 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 financial performance indicators are reported:

### Cost-Income-Ratio

The financial year 2021 resulted in EUR 1,124.6m revenues compared to EUR 1,095.9m in the previous year. Thus, the predicted slight increase in revenues was exceeded. Costs decreased to EUR 916.9m compared to EUR 946.1m in the previous year. This results in a cost/income ratio based on HGB figures of 82% (prior year 86%). The revenues exceeding last year's forecast led to an improved cost/income ratio while a constant cost/income ratio was predicted.

The budget for the current financial year is based on IFRS figures and stipulated a cost/income ratio of 85%. Cost/Income ratio according to IFRS is 77%. Thus, the target was also exceeded.

### Profit before tax

The profit before tax according to IFRS is reported as financial performance indicator. For the financial year 2021 the profit before tax results to EUR 238m which is 65% above the plan of EUR 144m.

The bank discloses the profit before tax per division and per location in the internal management information system: most of the branches are above plan (Italy EUR + 21m, Netherlands EUR + 3m, Luxemburg EUR + 36m, Sweden EUR + 2m and Spain EUR +30m).

Global Wealth Management (+22%) and Investment Bank (+61%) as divisions increased the profit before tax, which Asset Management decreased the profit before tax by 23% compared to the previous year.

### Return on Equity

The Return on Equity (RoE) is calculated as ratio between profit before tax and equity and results to 5% for the financial year 2021 which is above the plan of 3%. The Return on CET1 (RoCET1) is 6% and also above the plan of 4%.

### Invested Assets

Invested assets increased by EUR 16.4bn to EUR 165.8bn in the financial year, corresponding to an increase of 11%.

# Non-financial performance indicators

In order to provide a more holistic view on our performance and on the sustainability of our results, the following section on non-financial performance indicators is provided.

In 2021 we introduced our purpose 'Reimagining the power of investing. Connecting people for a better world' at UBS. With our purpose, we reimagine the power of people and capital, to create a better world for all of us – a world that's fair, sustainable and gives everyone the opportunity to thrive.

Our purpose is why we do what we do; our culture is the way we do it. Our strong and inclusive culture is grounded in our three keys to success, our Pillars, Principles and Behaviors, which define how we work together and what we stand for as a firm and individuals.

We are committed to being a place where our employees can unlock their full potential. Our ability to meet clients' needs, solve complex problems and develop innovative and sustainable solutions depends on the smart, talented, knowledgeable and engaged people who partner across UBS. Our employees are highly diverse in terms of experience, background, skills and interests. Our shared success is built on a cultural foundation emphasizing collaboration, inclusion, innovation and constant improvement.

A diverse workforce is a competitive advantage. Our strategy is to continuously shape a diverse and inclusive organization that is innovative, provides outstanding service to our clients, offers equal opportunities for all and is great place to work for everyone. Also, people from different backgrounds and experiences help us to make better decisions and drive innovation.

For information and data on sustainability, please refer to the UBS Group Sustainability Report.

Gender diversity is a key priority for UBS Europe SE and we continue to be committed to improve in this area. In 2020, to make our commitment in gender diversity more tangible and demonstrate our ambitions, a new Group aspirational goal was set: under this, UBS aims to have 30% of all Director and above roles held by women by 2025. The Management Board of UBS Europe SE has confirmed this for UBS Europe SE as well.

In addition, pursuant to Article 76 (4) und Article 111 (5) AktG ["Aktiengesetz": German Stock Corporation Akt] in conjunction with the FührposGleichberG ["Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst": German Act on the Equal Participation of Women and Men in Management Positions] aspirational goals for the ratio between male and female employees on the Supervisory Board, the Management Board and the two management levels below the Management Board have been defined. In 2018, the Management Board of UBS Europe SE reaffirmed the target of 27% of women in the first management level below Management Board and 20% for the second management level. For 2021 – 2025, the Management Board of UBS Europe SE set new ratios of 27% for the first management level and 28% for the second management level below the Management Board.

As of 31 December 2021, the representation of women on the UBS Europe SE Supervisory Board was 33%, exceeding the minimum female representation threshold of 30% for Supervisory Boards. The representation of women on the Management Board stood at 43% as of 31 December 2021.

As of the same date, the representation of women on the first management leveli stood at 22.2% (against an aspirational goal of 20%). and, for the second management levelii, women represented 27,9% (vs. an aspirational goal of 27%). We are actively working to further increase this share by hiring, developing, promoting and retaining more women.

Overall, the level of staff turnover at UBS Europe SE in 2021 was 12.8%. In Germany, the largest location, staff turnover was 8.5%. The average length of service of permanent employees is approximately 11.4 years.

# Non-financial report

UBS AG has issued a seperate non-financial group report and published it in accordance with Article 114 WpHG ["Wertpapierhandelsgesetz": Securities Trading Act]. 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/global/en/investor-relations and this also includes the disclosure according to Article 8 EU Taxonomy. UBS Europe SE is therefore exempted from the issuance of a non-financial report in accordance with Article 298b HGB and refers to the GRI document for details on the mentioned subjects.

# Overall economic environment

2021 saw the interplay of vaccine rollouts, fiscal stimulus, economic reopening, and strong earnings growth, with fears of new COVID-19 variants and elevated inflation. Stocks and commodities rallied, while bonds sold off.

World GDP grew by around 6% in 2021, reflecting a rebound from the sharp decline in economic activity of 2020, with the improvement driven by a gradual lifting of mobility restrictions and the vaccine rollout. The pace of recovery in global economic activity will begin to subside in 2022, with growth decelerating to 5%. Risks remain skewed to the downside in the near term as uncertainties around the impact of mutant viruses causing a resurgence of the pandemic remain elevated.

The US economy expands by close to 6% in 2021 and 5.5% in 2022, supported by fiscal stimulus packages as well as an acceleration in consumer spending on services as the economy reopens. US CPI inflation rises to around 4.5% on average in 2021, primarily driven by supply constraints and pent-up demand as a result of the reopening of the economy. CPI inflation will slow to around 3% in 2022 as inflationary pressures ease. In Japan, the recovery from the pandemic is supported by the positive spill-over from strong global demand and an improvement in consumption, resulting in GDP growth of 2% in 2021. Growth then increases to 3% in 2022, before decelerating towards its 1% long-term trend thereafter. Japan's CPI inflation rises above zero in 2022, though still below 1%.

In the Eurozone, the recovery from the acute economic decline of 2020 leads to a GDP upswing of around 5% in 2021, as activity resumes thanks to mobility restrictions easing and accelerating vaccination. In 2022, the continued reabsorption of labor market slack drives GDP growth towards 5.5%. Eurozone CPI inflation accelerates to close to 2.5% in 2021, driven by base effects from energy prices and last year's VAT rate cut in Germany.

In the UK, strong private consumption drives economic growth to 7% in 2021 and 6% in 2022. UK CPI inflation picks up to around 2.5% on average over the next two years, as it rises significantly at the end of 2021 and in early-2022, against the backdrop of higher energy prices. After experiencing a milder economic shock in 2020, Swiss GDP shows a more moderate rebound of around 3.5% in 2021, supported by the reopening of the economy and the positive impact from sport events. GDP growth subsides in 2022 with an expansion of 3%. Swiss inflation remains close to 0.5% in 2021 and 2022.

In 2021, global equity prices grew by around 10.5% under the Baseline projections. US equities grow by 13.5% in 2021, outperforming other developed markets. Despite a decline expected in the last quarter of the year, equities in the Eurozone rise by 12.5% in 2021. In 2022, equities are projected to contract by 1%. Equities in the UK and in Switzerland rise by around 10% and 9% respectively in 2021. In 2022, UK equities grow by approximately 2% while equities in Switzerland remain flat, according to our projections.

Interest rate expectations in the US in 2021 have increased since the start of the year, in line with higher inflation expectations. 10-year swap rates stay above 1.5% through the end of 2021 but will remain contained below 2% until 2023, according to our projections. Long-term interest rate expectations in the Eurozone and Switzerland have increased marginally, with 10-year swap rates gradually approaching 0.5% over the next three years for both regions.

There are several threats to the outlook for the global economy. The ongoing pandemic could compromise the recovery if the emergence of more transmissible and vaccine-resistant variants of the virus requires the renewal of mobility restrictions. Inflation could become worrisome should transitory factors turn out to be persistent due to continued supply chains disruptions, leading to tighter policies. Given the current levels of equity valuations, a negative correction could occur if the positive news already priced in does not materialize. Higher taxes and financial repression could result from elevated public debt levels. A crisis in the corporate credit market would also represent a significant negative shock to the global financial system, particularly in emerging markets due to their high debt vulnerabilities. Some of these risks could become more likely as fiscal and monetary support tapers.

An escalation of US and China tensions cannot be ruled out against the backdrop of trade, industrial policy and geopolitical issues. This could potentially damage economic growth and financial asset performance by weighing on investor sentiment and global trade. Challenges to political consensus in Europe could pose a threat to economic recovery in the region.

# Business in 2021

2021 has been a good year for UBS ESE, despite remaining COVID-19 restrictions. The firm demonstrated strength of the core business lines and management's ability to improve efficiency in a challenging market environment.

**Financial result of UBS Europe SE for the year 2021**

On IFRS basis, UBS Europe SE recorded a profit before tax for 2021 of EUR 323m, including the pre-tax proceeds from the sale of the Austria GWM business. Excluding the proceeds from the aforementioned sale, profit before tax for 2021 is at EUR 238m, exceeding the plan for the year (EUR 144m) by EUR 94m or 66%.

- Profit before tax for Global Wealth Management (adjusted for the sale of the Austrian wealth management business) was EUR 120m, being EUR 29m or 32% above the plan for the year (EUR 91m)
- Profit before tax for the Investment Bank was EUR 134m, which is 67m or 101% above the plan for the year (EUR 67m)
- Profit before tax for Asset Management was EUR 38m being 27m or 245% above the plan for the year (EUR 11m)
- Group Functions reported a loss before tax of EUR 55m, which is 30m or 120% lower than the plan for the year (EUR 25m).

In the Global Wealth Management business, revenues (excluding proceeds from the Austria Sale) were 1% higher compared to plan for 2021, mainly resulting from higher recurring fees across locations. Despite an unfavorable interest rate environment and a decrease in Net Interest Income for, UBS Europe SE benefited from higher recurring fees compared to the plan. This is explained by a growth of Invested Assets of 14% YoY, mainly in Luxembourg (+10%) and Germany (+11%). Transactional fees have been lower as expected, when compared to 2020, which was positively impacted by market volatility and increased client activity at the beginning of the COVID19 pandemic.

For the Investment Bank, revenues in 2021 were 20% higher than planned for 2021, which is just 3% below the record-setting 2020 result. The closure of the UK branch was partially compensated by increased Global Banking revenues compared to plan, and by the Cross Border Merger of the French and Spanish Entities in UBS ESE in Nov 2020. Adjusted for the UK Branch closure, 2021 revenues in the Investment Bank increased by 38% compared to 2020.

For Asset Management, improved revenues in 2021 come mainly from Luxembourg and are driven by market performance and increased activity.

UBS Europe SE recorded lower returns within its Treasury asset portfolio in Group Functions compared to plan, specifically driven by compressed spreads and current market environment, while there was a foreign currency translation loss generated from the Austria sale.

# Financial position

**Net assets**

The bank's net assets are in order. The balance sheet total increased to EUR 49.8bn for the current year (prior year: EUR 48.4bn).

Key items were receivables from credit institutions (61% of total assets) and customer receivables (13%). Further items affecting net assets are described below.

## Cash reserve

As of the balance sheet date 2021, the credit balance with central banks was EUR 2.0bn (prior year: EUR 1.7bn), thereof EUR 1.0bn (prior year: EUR 0.6bn) with Deutsche Bundesbank.

## Receivables from credit institutions and customers

Total receivables from banks increased by EUR 4.2bn compared to the previous year. The deposit facility with Deutsche Bundesbank increased by EUR 900bn while receivables from repurchase agreements less by EUR 3.0bn. Receivables from customers decrease by EUR 0.1bn.

| | *31-Dec-21* | *31-Dec-20* | Change | |
|---|---|---|---|---|
| | *EUR million* | *EUR million* | *EUR million* | % |
| Receivables from credit institutions | 30,185 | 26,018 | 4,167 | 16.0% |
| Receivables from customers | 6,694 | 6,841 | -147 | -2.2% |
| **Total receivables** | **36,879** | **32,860** | **4,019** | **12.2%** |

The following overview shows the geographical split of receivables and liabilities to credit institutions and customers.

**Breakdown by country**

| *EUR million* | Receivables from credit institutions | Receivables from customers | Liabilities to credit institutions | Liabilities to customers |
|---|---|---|---|---|
| Germany | 29,216 | 3,053 | 18,341 | 6,474 |
| Luxembourg | 853 | 1,686 | 118 | 11,862 |
| Italy | 50 | 1,106 | 18 | 2,335 |
| Spain | 15 | 845 | 1 | 738 |
| Austria | 0 | 0 | 0 | 0 |
| Sweden | 6 | 1 | 0 | 0 |
| Netherlands | 6 | 3 | 1 | 0 |
| France | 36 | 0 | 0 | 0 |
| Poland | 1 | 0 | 0 | 0 |
| Denmark | 1 | 0 | 0 | 0 |
| Switzerland | 1 | 0 | 0 | 0 |
| **Total** | **30,185** | **6,694** | **18,479** | **21,409** |

## Trading assets

Trading assets include shares and other variable yield securities amounting to EUR 3.4bn and positive replacement values from derivatives amounting to EUR 1.2bn.

## Securities

Debt securities and other fixed-income securities decreased by EUR 1.7bn. The shares and other variable securities portfolio is nearly unchanged compared to the previous year.

| | *31-Dec-21* | *31-Dec-20* | Change | |
|---|---|---|---|---|
| | *EUR million* | *EUR million* | *EUR million* | % |
| Money market instruments, bonds and debt securities from public issuers | 1,541 | 3,217 | -1,676 | -52.1% |
| Money market instruments, bonds and debt securities from other issuers | 2,751 | 2,748 | 3 | 0.1% |
| **Debt and other fixed-income securities** | **4,292** | **5,965** | **-1,673** | **-28.0%** |
| **Shares and other variable-yield securities** | **1** | **1** | **0** | **0.0%** |
| **Total securities** | **4,293** | **5,966** | **-1,673** | **-28.0%** |

### Liabilities to credit institutions and customers

Total liabilities increased by EUR 2.3bn compared to the prior year value. The intercompany liabilities increased by EUR 2.3bn.

| | *31-Dec-21* | *31-Dec-20* | Change | |
|---|---|---|---|---|
| | *EUR million* | *EUR million* | *EUR million* | % |
| Liabilities to credit institutions | 18,479 | 17,098 | 1,381 | 8.1% |
| Liabilities to customers | 21,409 | 20,475 | 934 | 4.6% |
| Securitized liabilities | 1 | 5 | -4 | -78.3% |
| **Total liabilities** | **39,890** | **37,579** | **2,311** | **6.1%** |

### Equity

The bank's subscribed capital is unchanged at EUR 446,001,000.0 and is divided into 446,001,000.0 registered shares. An amount of EUR 472.0m was transferred from the capital reserves to the net profit, thus capital reserves amount to EUR 1,934.9m as of 31 December 2021. Profit reserves remained unchanged amounting to EUR 46.4m.

The Common Equity Tier 1 (CET 1) ratio according to Article 92 CRR was 0.2% (prior year: 0.3%).

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

There was no obligation as of 31 December 2021. Therefore provisions were not recognized.

## Liquidity

UBS Europe SE was solvent at all times during the fiscal year. Since 1 October 2015, the minimum requirements for the Liquidity Coverage Ratio (LCR) have to be fulfilled. According to the Delegated Regulation 2015/61 as of 10 October 2014 the miminum ratio is 100% for 2018. As of 31 December 2021, the LCR for UBS Europe SE amounted to 1.9 (prior year: 1.7).

According to the Regulation (EU) 575/2013 as amended by (EU) 2019/876 (CRR2) the minimum Net Stable Funding Ratio (NSFR) of 100% is to be maintained from 28 June 2021. As of 31 December 2021, the NSFR for UBS Europe SE amounted to 171,3%.

## Result of operations

The financial year 2021 resulted in a net profit of EUR 141.1m after EUR 111.1 m in the previous year.

Net interest income totaled EUR -30.0m, burdened by net negative interest amounting to EUR 28.2m. 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 is EUR 789.4m. Net trading income was positive with EUR 77.3m.

Regarding costs, the most significant items were personnel expenses with EUR 460.8m. Other administrative expenses amount to EUR 351.0m. Largest part of the other administrative expenses with 0.5 are intragroup charges, particularly for IT and management services.

The bank is working to foster efficiency to recuperate the economic result.

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

| *EUR thousand* | **2021** |
|---|---|
| Denmark | -1,425 |
| Germany | -42,857 |
| France | 15,569 |
| Italy | 30,580 |
| Luxembourg | 75,758 |
| Netherlands | 6,829 |
| Austria | 90,924 |
| Poland | 539 |
| Sweden | 5,431 |
| Switzerland | 232 |
| Spain | 26,160 |
| **Total UBS Europe SE** | **207,741** |

The result of Germany includes treasury activities for all branches (total p&l EUR -55.9m).

# Opportunities and risk report

## Global Wealth Management

The environment that the wealth management business and the banking sector in general is facing, is highly conditioned by the following aspects:

### Changing behaviors and client needs

The 2008 financial crisis, Covid-19, as well as ongoing structural changes in the global economy and banking industry (e.g. digitalization, sustainability, FinTech) are continuously altering financial market dynamics and client expectations. As a result:

- Clients demand a more active relationship with their trusted advisor, while performance is the major driving force for client satisfaction
- Given less predictable markets, UBS ESE can no longer assume that they will positively contribute to producing investment performance. This may trigger increased appetite by clients for non-financial investments given their lower yields as compared to other investment alternatives such as real estate
- Relying on product performance alone will no longer suffice to consistently achieve the financial returns clients expect
- Client expectations with regards to personal privacy and transparency on products and services will become even more important

### Change in the demographic pattern

- Growing entrepreneurial wealth creation
- Increasingly younger client base (young generation with inherited wealth)
- New client players, such as Millennials and women, interested in driving change to society

### Growing demand for digitalization

While new technologies have already resulted in profound changes in various industries, the pressure on the financial services industry to adapt to the new digital reality continues to grow. The Global Wealth Management business model is traditionally based on direct client interactions and has only been marginally impacted by digital demand from clients until a few years ago. Due to clients' increasing interests in approaching digital players with best technical and security standards, a digitalized offer is being recognized as an enabler for intensifying the individual client relationship and has become a key element of the Global Wealth Management strategy. Furthermore, automation of systems and processes can lead to a reduction of operating expenses and to a decrease in complexity. In sum, the industry faces and can benefit from:

- High adoption of internet and mobile devices
- Increasing acceptance and demand for e-channels
- Ability to reduce costs and enter new segments

### Increased regulatory requirements

The financial services industry is subject to continuing regulatory challenges. Regulation, e.g. the MaRisk update, is expected to remain an important driver of changes in this industry in the future. In view of the opportunities and challenges ahead with regard to the ongoing implementation of the directive on markets for financial instruments, the corresponding regulation (MiFID II/MiFIR) plays a key role in the European Union. With this package, a number of reforms, new regulations for market infrastructure, outsourcing, market risk and stricter rules for investor protection are being introduced (i.e. CRR II, CRDV or IPU requirements). Lastly, even the continuing negotiations on the UK's future relationship with the EU (post-Brexit equivalence) will continue to further pose both risks and opportunities for UBS Europe SE.

### Material increase of transparency requirements

- 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 advice from the local markets while assets are being booked abroad ("proximity")
- MiFID II's huge transparency requirements show a great opportunity for those entities advanced in its implementation and with sufficient financial and solvency capacity as to make the necessary investments

### Uncertain political environment with moderate economic growth and low interest rates

Politics have played a huge role in financial markets in recent years and it will be no different in the future. Brexit, various election results around the globe, and statistics, show how the political "center ground" is not fixed, and investors need to remember that politicians are incentivized first by electoral success and popularity, not by GDP and corporate profit growth. To cope with this political uncertainty, investors are best served by diversifying across countries and regions, to avoid overexposure to the experimental policies of individual regimes. Monetary normalization and rising interest rates around the world constitute the UBS base scenario. In the coming months however, interest rates will remain low, so interest margins will continue to be squeezed.

Within this context UBS ESE clearly sees the following challenges:

- Volatile European political landscape and economic situation (e.g., Brexit, Covid-19 pandemic, Russia-Ukraine war)
- Moderate economic growth in Europe, with continued low interest rate environment

The previously described scenario provides a series of opportunities for UBS Europe SE:

- Adaptation of the current advisory model towards a "holistic" approach, from asset manager to holistic wealth advisor
- Revenue potential from increased focus on High Net Worth / Ultra-High Net Worth segments
- Client demand for digital services combined with new clients

segments to serve
- More polarized client needs (i.e., highly sophisticated/specific needs in the upper segments, standardization in the lower segments)
- Progress in the implementation of WMP, an IT cost-effective service platform across Europe, which provides UBS ESE with strong operating leverage for growth

#### Climate related and environmental requirements
In the course of the 17 United Nations (UN) Sustainable Development Goals (the SDGs), Global Wealth Management within UBS Europe SE aims to be the financial provider of choice for clients who wish to mobilize capital towards these achievements and the orderly transition to a low-carbon economy. Therefore, UBS ESE has developed its innovative approach to Sustainable Investing (SI), an approach that seeks to incorporate Environmental, Social and Governance (ESG) considerations into investment decisions:
- 100% Sustainable Investing strategic asset allocation, including green bonds, development bonds, ESG leaders bonds, ESG leaders equities, ESG improving equities, ESG thematic equities and ESG engagement equity funds
- Aligned to the UN's 17 Sustainable Development Goals
- Considering ESG Integration and Impact Investing alongside 'traditional' investment selection criteria
- UBS ESE partners with leading institutions and ESG investment managers to provide innovative, state-of-the-art investment content to our clients

### Investment Bank

Outlined below are the key market developments impacting the Investment Bank:

#### Economic and political landscape
The economic outlook for Europe remains challenging for the foreseeable future due to persistent low growth, accelerating inflation, and the outlook of moderately rising interest rates. Further, there is uncertainty over the duration and severity of COVID-19 restrictions. These factors combined are weighing heavily on European market sentiment. Geopolitical tensions and challenges to political consensus in Europe could pose a threat to economic recover in the region and financial asset performance by weighing on investor sentiment and global trade.

#### Regulatory landscape
Regulatory change remains key on the agenda for the foreseeable future with a number of large strategic projects impacting the Investment Bank including the LIBOR transition, Uncleared Margin Rules, and Fundamental Review of the Trading Book (FRTB). Through the Strategic Regulatory Initiatives / White Portfolio Management, the Investment Bank is actively addressing these regulatory requirements to ensure that UBS Europe SE remains regulatory compliant.

#### Digitalization and innovation
Digitalization and innovation continues to be a key focus point for Investment Banks in the quest to deliver best-in-class practices around trade idea generation, liquidity management, pricing tools and risk management to clients. Each area is driving business specific innovation while aligned through the leadership of the Investment Bank Executive Committee.

#### Environmental and social risk
The Investment Bank continues to observe an increasing client demand for sustainable investing. This is actively being met by providing thematic and sector research. The Investment Bank also provides investment solutions through socially responsible and impact exchange-traded funds and index-linked notes. In addition, the Investment Bank offers capital-raising and strategic advisory services globally to companies that make a positive contribution to climate change mitigation and adaptation.

### Asset Management

Despite the current challenging environment, Asset Management remains an attractive and growing industry. The firm sees three key industry trends in particular, which are believed to play to UBS Asset Management's strengths:

#### Changing investment environment
- Moving away from asset classes towards risk/return characteristics of products
- Increasing growth of passive and rule based/systematic investments
- Challenges to generate sustainable and differentiating growth

Changing client demand

- Need for truly global offering and solutions across all asset classes
- Distinction between low cost beta ('shift to passive') and high alpha products ('active investment strategies')
- Reflection of sustainability across product range

Changing industry dynamics

- Rise of FinTech and new technology entering into financial services sector
- Increased margin and consolidation pressure
- Need for enhanced operational excellence

## COVID-19

In 2021, UBS Europe SE has been continuously exposed to a situation where the standard business continuity strategy with fixed backup desks has not been suitable to mitigate the COVID-19 risks as these concepts would implicate an aggregation of staff and requirements for crossing borders travelling to other locations. Therefore, UBS Europe SE adjusted its standard business continuity strategy and continued 'Split Operations' since March 16th 2020 also in 2021 to ensure business continuity. For avoiding close contact of many employees all teams have been split in three groups: approximately 80% of the employees are working from home and 20% are present in UBS offices working at two independent areas without physical interaction. Social Distancing is a key element of the UBS protection measures and UBS Europe SE is fully compliant with all 4 revisions of the BMAS workplace standards.

UBS Europe SE follows the recommendations of the World Health Organization and has a centralized approach in communication and managing crisis activities. Furthermore, UBS Europe SE is in contact with local health authorities in all countries and includes their guidance in its crisis measures. For ensuring fast and clear crisis communication, UBS Europe SE installed local crisis management committees in each country (LCMCs) and centralized the coordination on EMEA level in an EMEA BCM task force.

UBS Europe SE has reflected critical staff, critical IT systems, outsourcings and critical processes in its business continuity plans. This ensures sufficient backup resources for critical services, especially Tier I services like Treasury and Operations. To cope with increased cyber risks during the crisis, UBS Europe SE has reviewed the remote access entitlements and UBS's base IT security standards include also mitigation measures for remote working as per standard operational procedures. UBS Europe SE expanded its network capacity for remote working. Additionally an employee awareness campaign on cyber security has been launched by the Information Security Officer (ISO).

UBS Europe SE sees a key risk in timely execution of client trades (e.g. margin calls) in case many clients asking for selling positions and UBS has to guarantee timely execution while being faced with own business stabilization under business continuity conditions. Although UBS Europe SE has been faced with high system loads, no issues or backlogs have been identified. Another operational risk is the timely delivery of ad hoc client information by physical mail (triggered by loss thresholds or other urgent messaging). Delays in external mail distribution by Swiss Post and DHL from Switzerland to UBS Europe SE countries could be prevented in all affected countries (Luxembourg, Germany, and Spain).

Overall UBS ESE is reporting stable operations under COVID-19 conditions and continues to monitor the situation closely whilst being alerted and prepared for scenarios like absence due to illness of significant number of staff.

## Market and competitive risk

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.

The branches of UBS Europe SE face vigorous competition from well-established financial service providers on a national and regional level. Some Swiss banks have been establishing themselves across Europe, further increasing competition.

For the Investment Bank, UBS Europe SE's main competitors are the major investment banks. The firm also competes with boutique investment banks and FinTech firms in certain regions and with regard to certain products.

In Asset Management, UBS Europe SE's main competitors are global firms with wide-ranging capabilities and distribution channels, as well as firms with a specific market or asset class focus.

Besides, it is country-specific local banks that form the biggest competition for UBS ESE. Despite these regional banks becoming more sophisticated and diversified in their business model, our size, geographic presence in Europe, and diversified client portfolio with a unique integration of GWM, AM and IB are exceptional and remain difficult for other competitors to replicate organically.

The competitive environment is also evolving. In addition to traditional competitors in the asset-gathering businesses, new entrants are targeting selected components of the value chain. However, the firm has not yet seen a fundamental unbundling of the value chain and client relationships, which might ultimately result in the disintermediation of banks by new competitors. Over the longer term, UBS Europe SE believes the entry into the financial services industry of large platform companies could pose a significant competitive threat, given their strong client franchises and access to client data. Fintech firms are gaining momentum, particularly due to Covid-19 as consumers respond and adapt to the crisis. However, such firms have not to date materially disrupted UBS Europe SE's asset-gathering businesses. The trend for forging partnerships between new entrants and incumbent banks has continued throughout the pandemic and is set to go on, as technology and innovation help banks overcome new challenges.

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.

## Russia-Ukraine-war

Regarding Russia's invasion of Ukraine on 24 February 2022, the current geopolitical situation has led to heightened volatility across global markets.

As a result, Switzerland, the US, the EU, the UK and others have announced unprecedented levels of sanctions and other measures against Russia and certain Russian entities and nationals. UBS's policy is to comply with all applicable laws, including sanctions and export controls, in the jurisdictions in which it operates. At present, numerous complex regimes are developing rapidly in response to the escalating conflict and UBS is working carefully and assiduously to comply with all relevant requirements and to address their potential consequences.

Regarding market, credit and macro-economic risks, adverse changes in interest rates, credit spreads, securities prices, market volatility and liquidity, foreign exchange rates, commodity prices, and other market fluctuations, as well as changes in investor sentiment, can affect earnings and ultimately financial and capital positions of UBS Europe SE. As financial markets are global and highly interconnected, local and regional events can have widespread effects well beyond the countries in which they occur. Any of these developments may adversely affect our business or financial results. Overall, UBS Europe SE sees the number of clients going into shortfall increasing as markets show heightened volatility.

Concerning operational risks, for UBS Europe SE also cybersecurity risks have increased due to the widespread use of digital technologies, cloud computing and mobile devices to conduct financial business and transactions. Current geopolitical tensions also may lead to increased risk of cyberattack from foreign state actors. In particular, the Russian invasion of Ukraine and the imposition of significant sanctions on Russia by the EU, may result in an increase in the risk of cyberattacks.

# Risk management and methods

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

The choice of quantitative and/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 rules and standards of the internal risk management and risk control for significant risks including the qualitative and quantitative limits are defined within the risk strategy of UBS Europe SE based on a yearly risk inventory. The risk appetite for individual risks is reflected by the limits set. The limits set have a restrictive character and are supplemented by complementary indicators and targets supporting control and monitoring of the individual risks in the course of business.

A quantitative comparison of material risks and own funds on enterprise level is being conducted as part of the bank's ICAAP (Internal Capital Adequacy Assessment Process), which encompasses a normative as well as an economic view following a going concern assumption.

As another component of the overall ICAAP, UBS Europe SE has implemented a so-called stress testing framework, which conducts scenario- as well as sensitivity stress tests for all material risks, including reverse stress tests.

The review of the adequate liquidity is done using ILAAP (Internal Liquidity Adequacy Assessment Process - see section liquidity and funding risk).

## Counterparty default risk

Counterparty default risk is the risk of loss as a result of a failure by a counterparty (including issuers) to meet its contractual obligations to UBS ESE. It arises from the credit exposure inherent in lending, trading, contingent liabilities and irrevocable loan commitments. Risks are reduced by accepting collateral and by other risk mitigating activities. Counterparty default risk arises through Wealth Management business, Investment Banking business and Issuer Risk.

### Wealth Management Business

During 2021, UBS ESE continued to focus on traditional securities backed lending to Wealth Management clients across its branch network, as well as Asset Servicing clients out of UBS ESE Luxembourg. Credit risk is offered in the form of Lombard loans, used for overdrafts, fixed advances and to provide margin for derivative trading, and to a limited extent mortgage loans. Wealth Management business encompasses loans to private clients, private investments companies, institutional and private label funds and to a limited extent operating companies, where all facilities are collateralized by assets.

With the exception of a complementary offering in Italy, the Mortgage business in UBS Europe SE is closed for new business.

The quality of the credit portfolio remains strong at the end of 2021 with a stable loan book. 2021 saw the sale of the Austria branch business which lead to a reduction in the loan book. Over 90% of the loan book exposure is supported with liquid and diverse collateral portfolios rated very high internally.

In 2021 a combined lending initiative with Wealth Management and Investment Bank was approved in UBS ESE. This allows Global Wealth management to use the expertise of the Investment Bank to structure and monitor transactions where the underlying collateral is concentrated and/or less liquid such as single stock loans or funds of hedge funds. In 2021 a new business initiative in Germany was approved to extend cashflow lending to European Corporate subsidiaries of Swiss companies.

The portfolio did not witness any further deterioration as a result of the ongoing pandemic or the legislative moratoria coming to an end at end of December 2021. We witnessed a marked reduction in the NPL loans in Luxembourg branch as the real estate markets reopened and properties were sold.

### Investment Bank

UBS ESE provides services to for derivative products and lending. Counterparty Default risk arises from traditional banking products such as loans, loan commitments and guarantees and from traded products, including over-the-counter (OTC) derivative transactions and exchange-traded derivatives, as well as securities financing transactions such as repurchase agreements (repos and reverse repos), securities borrowing and lending transactions. The macro-economic impact of the COVID-19 pandemic was severe but eventually remained manageable for clients in our portfolio. Credit quality of the IB portfolio remains high with majority of exposure to Investment Grade rated clients. Credit deterioration driven by the economic impacts of COVID-19 was limited during 2021 with few new counterparties added to our watch-list. IB loans booked into UBS ESE are fully sub-participated to UBS AG London Branch (AGLB), under the terms of the revised MSPA (Master Sub-participation agreement) and are subject to existing Credit Risk Control processes and reporting.

### Issuer Risk

Issuer Risk is counterparty default risk arising from both trading & banking book activities. Risk in trading book comes from the IB market making activities and REM CVA management. Risk in banking book come primarily from liquidity & excess cash portfolios managed by Group Treasury.

## Market risk

Market Risk is the risk of loss resulting from adverse movements in market variables. Market variables include observable variables, such as interest rates, foreign exchange rates, equity prices, credit spreads and commodity (including precious metal) prices, and variables that may be unobservable or only indirectly observable, such as volatilities and correlations.

Market risks in UBS Europe SE arise from both trading and non-trading business activities.

Trading market risks arise mainly in connection with market making for securities and derivatives within the Investment Bank. In addition, credit and funding valuation adjustments (CVA and FVA) on the derivatives portfolio managed, centrally by Regional Treasury, also give rise to market risk.

Non-trading market risk arises predominantly in the form of interest rate risk in connection with lending & deposits within the Wealth Management business, as well as from Treasury activities to manage the liquidity and funding profile in the entity. The inherent interest rate risks within the Wealth Management business are transferred either by means of back-to-back transactions, or in case of products with no contractual maturity date, by replicating portfolios into Regional Treasury where the risks are managed.

Regional Treasury assumes market risks mainly in the process of managing interest rate risks, as well as the liquidity and funding profile in the entity, where exposure arises from intercompany funding transactions (including AT1 and MREL), from asset portfolio such as HQLA and from management of excess cash. Regional Treasury uses derivative instruments to manage interest rate risk in the banking book, some of which are in designated hedge accounting relationships.

Market risks are measured and controlled using limits and triggers proposed by Market and Treasury Risk Control. The Management Board approves the risk appetite for the entity and the portfolio limits, including their allocation to the business divisions and Group Functions units. Limits are then also allocated at granular levels within the various business lines reflecting the nature and magnitude of the market risks.

The primary portfolio measures of market risk are liquidity adjusted stress (LAS) loss and value at risk (VaR). These measures are complemented by concentration and granular limits for general and specific market risk factors. Value at risk is based on a level of confidence of 95% and a holding period of one day over a historical observation period of five years.

In addition, Market and Treasury Risk Control applies a holistic risk framework which sets the appetite for treasury-related risk taking activities across the entity. A key element of this framework is an overarching economic value sensitivity (EVS) limit. Furthermore, the sensitivity of net interest income (NII) to changes in interest rates is monitored in order to analyze the outlook and volatility of net interest income based on market-expected interest rates

## Liquidity and funding risk

The entity's Liquidity & Funding Risk Management Framework defines the liquidity and funding risk management approach for ESE. As such, the framework lays out the interplay of the key elements of the overall ESE liquidity & funding risk management process and associated governance processes.

Liquidity risk is the risk that UBS Europe SE (ESE) will not be able to efficiently meet both expected und unexpected current and forecasted cash flows and collateral needs without affecting either daily operations or the financial condition of the entity.

Funding risk is the risk that ESE is unable, on an ongoing basis, to borrow funds in the market on an unsecured (or even secured) basis at an acceptable price to fund actual or proposed commitments, i.e. the risk that ESE’s funding capacity is not sufficient to support its current business and desired strategy.

ESE has developed liquidity and funding risk drivers covering its global business, by reviewing the primary and consequential impact to liquidity and funding and through discussions with the business, legal, risk and other stakeholders. ESE Treasury and MTRC reassess all L&F related risks as part of the ILAAP. The material liquidity & funding risk drivers for ESE are unsecured outflows and off-balance sheet and contingent outflows.

In addition to regulatory metrics, ESE measures liquidity and funding risks using a set of internal stress tests covering the risk drivers affecting ESE, different stress scenarios, time horizons and both ILAAP perspectives (economic and normative) supported by Reverse Stress Testing. The outputs of internal liquidity and funding stress tests are managed in aggregate via limits and indicators based on the surplus liquidity calculated under these stress tests.

The Risk Appetite Statement of the entity, which defines the Management Board’s tolerance to liquidity and funding risks arising from ESE’s business activities, is translated quantitatively into Risk Appetite limits. In addition, ESE also monitors its liquidity and funding position through Early Warning Indicators (EWI) and Recovery and Resolution Indicators (RRI).

ESE Treasury and MTRC monitor ESE's liquidity and funding situation through daily and monthly reporting, based on internal and external liquidity risk metrics. The ESE ALCO and Management Board are also informed about the liquidity and funding situation through daily and monthly reporting. Treasury facilitates the day-to-day liquidity and funding management and monitors business activity/strategy through the business-level funding planning process and targets, thereby ensuring appropriate business activity/strategy and preventative actions are taken to avoid breaches.

ESE also maintains its own Contingency Funding Plan as a preparation and action plan to ensure ESE can raise sufficient liquidity and funding during stressed liquidity conditions. It complements the liquidity management processes as defined in the policy Liquidity and Funding Risk Management Framework ESE.

ESE adheres to the Internal Liquidity Adequacy Assessment Process (ILAAP) regulatory requirements. The key output of the ILAAP is the Management Board's assessment of ESE's liquidity adequacy, formalized through the respective statement.

## Operational risk

Operational Risk, Compliance Risk and Financial Crime Risk stand next to each other. UBS ESE categorizes Operational Risks, Compliance Risks and Financial Crime Risks which arise as consequences of its business activities along the Operational Risk Taxonomy universe, that forms the foundation of the UBS Operational Risk Framework (ORF). The three risks are defined as follows:

### Operational Risik

Operational Risk 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 ESE, its clients or the markets in which it operates. Events may be direct financial losses or indirect in the form of revenue forgone e.g. as a result of business suspension. They may also result in damage to our reputation and to our institution, which have longer term financial consequences. Operational Risk is further sub-categorized by the UBS Operational Risk Taxonomies which are defined within the UBS Operational Risk Framework.

### Compliance Risk

Compliance Risk is the risk of legal or regulatory sanctions, material financial loss, or loss of reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities, as long as such risk is not financial crime related.

### Financial Crime

Financial Crime Risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities, as long as such risk relates to theft, fraud, unauthorized activities, money laundering, know your customer, sanctions, embargoes or corruption.

In addition to the above three risk categories, Conduct Risk is considered as a root cause, contributing to Operational Risk, Compliance Risk and Financial Crime Risk. It is defined as 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

UBS Europe SE's Operational, Compliance and Financial Crime risk exposure is systematically monitored, assessed and reported by Operational Risk Control (ORC), Compliance and Financial Crime Prevention respectively, in line with the holistic Operational Risk Framework (ORF) based on the three-lines-of-defense model, including the approved operational risk appetite, comprehensive control frameworks and key operational risk assessment and reporting processes.

The ORF is managed on enterprise level, considering UBS Europe SE including its branches and subsidiaries, and on individual branch/subsidiary level, if required. UBS Europe SE's governance bodies are fully updated on the Operational, Compliance and Financial Crime risk exposure and mitigation actions on a monthly basis.

During 2021, the key Operational, Compliance and Financial Crime risk topics have been mainly driven by:

- the COVID-19 pandemic during which UBS Europe SE has reacted quickly and effectively to the contingency situation generated by the pandemic. This has been evidenced by ensuring operational continuity in a scenario where most of the employees, customers and providers are working remotely, and due to the fact that no significant operational risk events or issues have been generated by the pandemic;
- further addressing the identified weaknesses in the area of the Anti-Money Laundering (AML) framework. The significant efforts to strengthen the overall AML framework were addressed with involvement of the Management Board;
- Significant efforts to improve the overall Compliance framework. The bank invested significant efforts and Management attention to strengthen the overall Compliance Risk framework, to address ECB recommendations in respect of its Compliance function.
- Weaknesses in reaching regulatory expectations related to the Information and Communication Technology (ICT) and Outsourcing risks frameworks, and the need for improvements in the execution of the Compliance mandate.
- No material Operational Risk Event (>= 10bps CET1) occurred.

The set of top-risk taxonomies remains fairly stable and aligned with the core business activities.

The overall remediation actions portfolio to mitigate the residual operational risk back to the approved appetite progressed well during 2021, and the outlook for 2022 is also positive.

## Outsourcing risk

UBS Europe SE has a certain concentration risk as critical processes are outsourced to specific intragroup service providers. However, the default risk is low as the outsourced services are intragroup and are underpinned by robust contingency planning as well as by regular performance monitoring and risk assessments. The major parts of the Group Function services are provided by UBS Business Solutions AG, a fully owned subsidiary of UBS Group AG.

Third party risk is low as the services are provided by multiple service providers. In addition, it is managed through the existence of exit plans for critical services, regular vendor risk assessments and robust monthly performance monitoring.

There have been no service deviations in 2021 causing a material adverse impact on the operations of UBS Europe SE. Also, until today there has been no material impact on UBS outsourcing operations from COVID-19.

The results of the evaluation processes are used to ensure full compliance with MaRisk and EBA Guideline requirements.

The outsourcing strategy of the bank is to continue using intragroup outsourcings provided mainly by UBS Business Solutions AG, in order to leverage existing centers of competence for effective business and risk governance. It will also continue leveraging Group infrastructure in order to share the investments and benefits of scale economies as well as to ensure standardization and alignment of the operating models across multiple locations.

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 outsourcing were trained to fulfill MaRisk and EBA Guideline requirements in their daily business.

## Reputational risk

Reputational risk is the risk of unfavorable perception of the firm or decline of UBS Europe SE's reputation from the point of view of clients/industries, shareholders, regulators, employees or the general public which may lead to potential financial losses and/or market share'. Therefore, reputational risk can be a consequence of losses in all risk categories. In the area of Financial Crime Prevention these are generally incidents which become known to the public. Besides negative news with regard to single cases, such incidents typically relate to sanctions because of non-compliance with regulatory requirements.

Customers are one of the key UBS Europe SE stakeholders in terms of bank's reputation protection.

Year-on-Year numbers of client complaints in Global Wealth Management significantly decreased compared to 2021. The main reason for the decrease was the sustainable remediation of complaint's sources identified in 2020. Complaint numbers for the Investment Bank are inconspicuous.

There were no significant incidents in 2021 with regard to reputational risks towards shareholders, employees and the general public.

In terms of reputational risk relating to regulators, the focus is on maintaining a transparent and reliable working relationship with all relevant regulators.

There have been no noteworthy events with respect to the interaction with the regulators regarding reputational risks.

From a press coverage perspective, the sale of the Global Wealth Management businesses in Austria and Spain are noteworthy.

## Legal risk

UBS Europe SE operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and legal proceedings, including litigation, arbitration and regulatory and criminal investigations.

Such matters are subject to many uncertainties, and the outcome and the timing of resolution are often difficult to predict, particularly in the earlier stages of a case. There are also situations where UBS Europe SE may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which UBS Europe SE believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. In some cases UBS Europe SE is subject to confidentiality obligations that preclude such disclosure.

Specific litigation matters and external investigations are described below, including matters that the Management Board believes to be of significance due to potential financial, reputational and other effects.

A significant proportion of the value in dispute for UBS Europe SE, as legal successor to UBS (Luxembourg) S.A. is attributable to the consequences of the Madoff investment 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 the aforementioned Madoff litigation cases, UBS Europe SE was involved in civil litigation cases in various jurisdictions where it operates and has established provisions for legal risks and damage claims amounting to EUR 33.9 m for these cases.

UBS Europe SE and relevant UBS-individuals are also subject to certain investigations by public authorities in various countries, which may result in reputational and financial impact.

### 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 regular 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.

## IT Risks

This is a risk which is not managed via ICAAP and is therefore not quantified and measured.

In the past years, both the volume of cyber–related attacks and their sophistication have increased in the financial industry with the expectation for this trend to continue. Although the scope and scale of cyber-attacks have continued to intensify since the beginning of the pandemic, UBS Europe SE did not record any impact of cyber-attacks on the company itself in 2021.

UBS group has increased the investment in cyber security through the recent years, allocating significant resources for the operation of the bank's security control infrastructure as well as programs to address the evolving threats encountered. Frequent Management Reporting regarding Cyber Threat Risk has been established and regular status updates are presented to the Risk Control Committee.

Even in its second year, the pandemic had no discernible impact on operational stability and security. The increased use of agile forms of work and work-from-home supported general business success.

UBS Europe SE is actively involved in the Group-wide EOR (Enhanced Operational Resilience) initiatives and the Significant Application Identification Initiative (Crown Juwels).

The further development of the regulations (for EBA Guidelines on ICT, BAIT) as well as ensuring data security and integrity in data collection in the IT systems will be the focus of regulatory regulation in the future and will be closely monitored by UBS Europe SE. These developments together with a formal risk and governance framework, to includes multiple levels of internal and external risk assessments, as well as processes for tracking and remediating operational risk, are combined.

Furthermore, UBS group uses cloud computing as a strategic solution and invests in this technology.

UBS Europe SE regularly examines the security measures of the external vendors who connect to the network or are otherwise entrusted with confidential data.

In addition, the bank is committed to raising staff awareness and provides all staff with information regarding effective protection and defensive measures to mitigate IT risks.

# Risk position

The bank's own funds pursuant to Article 72 CRR amounted to EUR 3,043 bn (prior year: 3,982m), which corresponds to a CET1 capital ratio of 22.39% (prior year: 28.08%) and an overall ratio of 24.75% (prior year: 30.28%). 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**

| *EUR million* | 31.12.2021 | 31.12.2020 |
|---|---|---|
| Credit risk | 8.679 | 8,855 |
| Settlement and delivery risk | 49 | 58 |
| Market risk | 800 | 661 |
| Operational risk | 2.127 | 2,477 |
| Credit value adjustments | 639 | 1,099 |
| **Risk-weighted assets total** | 12.294 | **13,150** |

# Summary presentation of the risk position

UBS Europe SE carries out a risk inventory at enterprise level on a yearly basis to determine the material risks the bank is exposed to.

Within the ICAAP, potential risk exposures for material risks are calculated on a quarterly basis and compared with the own funds available at the respective reporting date. This results in necessary capital ratios after stress in the normative view and in remaining internal capital („excess capital") in the economic view.

Conceptually the ICAAP encompasses a normative as well as an economic view. The normative view aims to prove adherence to regulatory (minimum) ratios in a baseline scenario as well as under severe adverse conditions and simulates a three year forward looking time horizon. The economic view represents a point in time risk calculation based on internal methodologies under a 99.9% confidence level and a one year forward looking time horizon. Risk exposures are being compared to internal capital in order to prove sufficient capital resources are available.

The following tables show the normative and the economic perspective of ICAAP as of 31 December 2021:

| | Baseline scenario | | Adverse scenario | | | |
|---|---|---|---|---|---|---|
| | 3-year planned capital requirement | | 3-year adverse capital requirement and cumulative capital impacts | | | |
| | *Going Concern Capital Requirement = 15.11%* | | *Total SREP Capital Requirement = 10.25%* | | | |
| | Planned RWA | RWA x Capital Requirement | Adverse RWA | Adverse RWA x TSCR | Capital impacts | Total |
| Credit Risk | 11,459 | 1,731 | 9,059 | 929 | 75 | 1,004 |
| Market Risk | 2,653 | 401 | 2,980 | 305 | 17 | 323 |
| Operational Risk | 1,946 | 294 | 1,602 | 164 | 202 | 367 |
| Business Risk | | | | - | 99 | 99 |
| Funding Risk | | | | - | 252 | 252 |
| Pension Risk | | | | - | -83 | -83 |
| **Total** | **16,058** | **2,426** | **13,641** | **1,398** | **563** | **1,962** |
| **Total capital requirement and scenario impact** | | **2,426** | | **1,398** | **563** | **1,962** |
| Early warning indicator headroom | | 223 | | 205 | | 205 |
| **Total early warning indicator level** | | **2,650** | | **1,603** | **563** | **2,166** |
| Management buffer | | 250 | | 71 | | 71 |
| **Total capital target level (incl. management buffer)** | | **2,900** | | **1,674** | **563** | **2,999** |
| **Capital resources** | | | | | | |
| Total available capital resources | | 2,892 | | | | 2,892 |
| **Capital surplus / (deficit) to trigger level** | | **242** | | | | **726** |

| | | | | | | | 31.12.2021 |
|---|---|---|---|---|---|---|---|
| *EUR million* | WM | IB | AM | GALM | CC Services | NCL | Total |
| Credit and issuer risk incl. country risk | 140 | 181 | - | 108 | - | - | 429 |
| Market risk and Pension risk | 11 | 13 | 2 | 378 | 5 | 0 | 409 |
| Operational risk incl. legal risk | 447 | 175 | 13 | 21 | 13 | 23 | 692 |
| Funding cost risk incl. FVA | 18 | 0 | - | 105 | 0 | 0 | 120 |
| Business Risk | 152 | -26 | -21 | - | 69 | - | 174 |
| **Aggregated risk exposure** | **768** | **343** | **-7** | **609** | **87** | **23** | **1,824** |
| Management buffer | | | | | | | 300 |
| **Aggregated risk exposure incl. management buffer** | | | | | | | **2,124** |
| **Capital resources** | | | | | | | |
| Total available internal capital | | | | | | | 2,244 |
| **Capital surplus/(deficit) after management buffer** | | | | | | | **120** |

# Forecast Report (as of 31 December 2021)

## 3-Year strategic plan

With a strong capital base and business model, UBS Europe SE is expected to remain profitable and reach its profitability goals over the 3-year planning horizon. The market and economic environment remains uncertain given the extended restrictions due to COVID-19 pandemic and ongoing geopolitical developments. Nevertheless, the forecasted economic activity will continue to grow although at slower pace than in 2021. Most importantly the increase of USD interest rates is expected to support the top line in Global Wealth Management in 2022 and subsequent years.

In 2022, the continued re-absorption of labor market slack drives GDP growth towards 5.5%. Eurozone CPI inflation accelerates to close to 2.5% in 2021, driven by base effects from energy prices and last year's VAT rate cut in Germany. Despite a decline expected in the last quarter of the year, equities in the Euro-zone rise by 12.5% in 2021. In 2022, equities are projected to contract by 1%. Interest rate expectations in the US in 2021 have increased since the start of the year, in line with higher inflation expectations. 10-year swap rates stay above 1.5% through the end of 2021 but will remain contained below 2% until 2023. Long-term interest rate expectations in the Eurozone and Switzerland have increased marginally, with 10-year swap rates gradually approaching 0.5% over the next three years for both regions.

Key points over the 3-year planning cycle include:
- Focus on core markets and steady growth YoY
- Restructuring and cost control / optimization
- Sustainable profitability, with a target PaT of 229m in Y2024
- Improved C/I ratio of 72% and RoCET1 of 9.9% in Y2024

## Global Wealth Management

Overall Global Wealth Management growth is in line with strategic initiatives as supported by the Management Board and agreed with the division and each Branch location.

Expecting revenues to increase YoY in 2022 +5% and for 2023-2024 by 6% per year. This growth is driven by market performance and the following business actions:
- Growth of the Loan portfolio and higher interest rates materializing in 2022-2024.
- Transactional revenues growth driven by focusing on offering clients structured products and alternative investment opportunities.
- Higher recurring fees driven by prioritizing "UBS Manage" and encouraging clients to invest more actively as well as higher IA valuations and building up NFGA.
- Pricing initiatives including charging clients for cash deposits in EUR and exiting unprofitable relations.

## Investment Bank

Overall Investment Bank growth in line with projected strategic initiatives and agreed with the division and the Investment Bank business within UBS Europe SE. Revenues are expected to decrease in 2022 compared to 2021 with a negative net impact to PbT of ~19m driven by the reduction in Global Banking revenues. The C/I ratio is expected at 64% in 2022 and then will improve as the revenues grow in 2023-2024. The change in 2022 PbT is impacted by the following items:
- Macroeconomic and Market Conditions
- Lower client activity in Global Banking
- Gaining market share in Europe in GM products

## Asset Management

Planned exit of the Asset Management business in the Netherland branch in 1Q22, expected to reduce complexities and aligned with the UBS Europe SE strategic direction and focus on the core businesses (GWM & IB). The Asset Management activities will be consolidated under UBS Asset Management AG. Associated revenues are gradually recovering in the outer years.

## Russia-Ukraine-war

UBS Europe SE continues to closely monitor related effects on its financial positions, including estimated direct and indirect impacts on expected credit loss calculations and on fair value measurement of assets, liabilities and off-balance sheet exposures. The situation continues to evolve and broader implications, are not possible to asses at this time; however, there are no material adverse effects on UBS Europe SE's financial statements as of end of March 2022. Our expectation is that we will see further market volatility as the conflict continues.

# 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, 29th April 2022

**UBS Europe SE**
**Management Board**

Christine Novakovic　　Dr. Andreas Przewloka　　Heinrich Baer

Pierre Chavenon　　Georgia Paphiti　　Tobias Vogel　　Denise Bauer-Weiler

# Other disclosures according to Art 26a (1) Sentence 2 and 4 KWG

["Kreditwesengesetz": German Banking Act] for fiscal year 2020
Arts. 89 and 90 of Directive 2013/36/EU

# Other disclosures for the financial year 2021

## Country-by-Country reporting according to Sec 26a (1) Sentence 2 KWG

### Scope of consolidation

UBS Europe SE is included in the scope of consolidation of UBS Group AG, Zurich.

UBS Group AG, Zurich, prepared exempted 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 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).

### Foreign Branches

UBS Europe SE has foreign branches in the following locations:

- Copenhagen, Denmark
- Paris, France
- Milan, Italy
- Naples, Italy
- Treviso, Italy
- Modena, Italy
- Padua, Italy
- Turin, Italy
- Brescia, Italy
- Florence, Italy
- Bologna, Italy
- Rome, Italy
- Luxembourg, Luxembourg
- Amsterdam, Netherlands
- Vienna, Austria*
- Salzburg, Austria*
- Warsaw, Poland
- Stockholm, Sweden
- Opfikon, Switzerland
- Madrid, Spain
- La Coruna, Spain
- Saragossa, Spain
- Valencia, Spain
- Seville, Spain
- Barcelona, Spain

*Branches to be closed at the end of the year

### Key services

UBS Europe SE offers the following key services:

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

### Revenues

UBS Europe SE generated total revenues of EUR 1,124.7m. This amount includes net interest income, net commission income, current income from shares and other variable-yield securities, equity investments and investments in affiliated companies, net trading income and other operating income.

Country-specific information is provided on a gross basis (i.e. before elimination of transactions between branches).

Geographical breakdown of revenues

| *EUR thousand* | 2021 |
|---|---|
| Denmark | 955 |
| Germany | 366,940 |
| France | 63,506 |
| Italy | 207,324 |
| Luxembourg | 225,895 |
| Netherlands | 19,757 |
| Austria | 105,574 |
| Poland | 1,953 |
| Sweden | 22,584 |
| Switzerland | 4,995 |
| Spain | 105,215 |
| **Total UBS Europe SE** | **1,124,699** |

### Employees

The number of employees in full-time equivalents was 1,968 in 2021.

Geographical breakdown

| | 31.12.2021 |
|---|---|
| ... by locations | |
| Denmark | 7 |
| Germany | 673 |
| France | 80 |
| Italy | 459 |
| Luxembourg | 436 |
| Netherlands | 33 |
| Austria | 0 |
| Poland | 2 |
| Sweden | 31 |
| Switzerland | 2 |
| Spain | 246 |

## Net profit for the year

The following table shows the net profit before and after taxes as well as the taxes on profit or loss. Information is provided on a gross basis (i.e. before elimination of transactions between branches.)

| *EUR thousand* | Result before taxes on profit and loss | Taxes on profit and loss | Result after taxes on profit and loss |
|---|---|---|---|
| Denmark | -1,425 | 0 | -1,425 |
| Germany | -42,857 | 1,208 | -44,065 |
| Germany without UBS Europe SE Treasury | 13,021 | 1,208 | 11,813 |
| France | 15,569 | 4,941 | 10,628 |
| Netherlands | 6,829 | 2,076 | 4,753 |
| Italy | 30,580 | 11,226 | 19,355 |
| Luxembourg | 75,758 | 20,350 | 55,408 |
| Austria | 90,924 | 22,667 | 68,258 |
| Poland | 539 | 0 | 539 |
| Sweden | 5,431 | 1,266 | 4,165 |
| Switzerland | 232 | 54 | 178 |
| Spain | 26,160 | 2,876 | 23,284 |
| **Total UBS Europe SE** | **207,741** | **66,664** | **141,077** |

## Public subsidies

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 assets (as ratio of net profit by total assets) for UBS Europe SE is 0.28%.

# Report of the Supervisory Board for 2021

English / Englisch

## Report of the Supervisory Board for 2021

The Supervisory Board fulfilled all its tasks according to law and according to the articles of association. The Supervisory Board advised and supervised the Management Board on a regular basis and was involved in decisions which were of fundamental importance for the entity.

In 2021 the Management Board regularly informed the Supervisory Board about the business policy as well as general questions of corporate governance and corporate planning, financial development, profitability and risk management. Important topics and decisions were regularly discussed in meetings between the Chair of the Management Board and the Chair of the Supervisory Board.

In the financial year 2021, the Supervisory Board has had four ordinary and two extra-ordinary meetings. In these meetings, all relevant issues and topics were discussed and appropriate decisions were taken. Moreover, all relevant topics and developments on strategies were discussed together with the Management Board. Additionally the four Supervisory Board committees (Risk Committee, Audit Committee, Nomination Committee and Remuneration Committee) support the Supervisory Board in performing its tasks and functions, in accordance with the Rules of Procedures and the legal requirements. According to the Rules of Procedure of the Supervisory Board, the Supervisory Board performed its annual self-assessment.

The auditor Ernst & Young GmbH, Wirtschaftprüfungsgesellschaft, Eschborn / Frankfurt, elected as auditors by the Annual General Meeting in the previous year, has audited the financial statement of UBS Europe SE and the Management Report for 2021 and issued their unqualified certification.

The Supervisory Board approvingly acknowledges the result of the auditor. The Supervisory Board follows the assessment of the auditor and does not raise any objections to the final assessment after its own examination and therefore approves the annual financial statement provided by the Management Board. The annual financial statement is adopted respectively.

The last time, Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, can be appointed as statutory auditor, is the fiscal year 2023. Hence the Audit Committee has carried out a selection procedure according to Art 16 EU-Directive 537/2014. As a result of this, the Audit Committee has recommended to the Supervisory Board to recommend to the Annual General Meeting, held in 2024, to appoint Mazars GmbH & Co KG, Hamburg, as Statutory Auditor for the fiscal year 2024. The Supervisory Board has decided to follow this recommendation.

The Supervisory Board would like to thank all employees who have contributed significantly through their great commitment to this result and the good of the bank.

German / Deutsch

## Bericht des Aufsichtsrats für 2021

Der Aufsichtsrat hat im abgelaufenen Jahr die ihm nach Gesetz und Satzung obliegenden Aufgaben wahrgenommen. Er hat den Vorstand regelmäßig beraten, überwacht und war in Entscheidungen von grundlegender Bedeutung für die Bank eingebunden.

Der Vorstand hat dem Aufsichtsrat im Geschäftsjahr 2021 regelmäßig über die Geschäftspolitik und andere grundsätzliche Fragen der Unternehmensführung und -planung, finanzielle Entwicklung und Ertragslage der Bank sowie das Risikomanagement berichtet. Aktuelle Einzelthemen und Entscheidungen wurden in regelmäßigen Gesprächen zwischen dem Vorstandsvorsitzenden und dem Vorsitzenden des Aufsichtsrats erörtert.

Der Aufsichtsrat trat im Geschäftsjahr 2021 zu insgesamt vier ordentlichen und zwei außerordentlichen Sitzungen zusammen. In diesen Sitzungen wurden alle für den Aufsichtsrat relevanten Themen diskutiert und die notwendigen Beschlüsse gefasst. Die Berichte und Entwicklung der einzelnen Geschäftsbereiche wurden zudem gemeinsam mit der Geschäftsleitung erörtert sowie die strategischen Fragestellungen diskutiert. Weiterhin hat der Aufsichtsrat seine Aufgaben gemeinsam mit den vier bestehenden Ausschüssen (Risikoausschuss, Prüfungsausschuss, Nominierungsausschuss und Vergütungskontrollausschuss) gemäß den regulatorischen Vorgaben und der Geschäftsordnung wahrgenommen. Entsprechend der Geschäftsordnung des Aufsichtsrats wurde die jährliche Selbsteinschätzung des Aufsichtsrates durchgeführt.

Die von der Hauptversammlung des vergangenen Jahres zum Abschlussprüfer gewählte Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, hat den Jahresabschluss der UBS Europe SE und den Lagebericht für das Geschäftsjahr 2021 geprüft und mit einem uneingeschränkten Bestätigungsvermerk versehen.

Der Aufsichtsrat nimmt das Ergebnis der Abschlussprüfung zustimmend zur Kenntnis. Er schließt sich dem Ergebnis der Abschlussprüfung an und erhebt auch nach dem abschließenden Ergebnis seiner eigenen Prüfung keine Einwendungen, sondern billigt den vom Vorstand aufgestellten Jahresabschluss der UBS Europe SE. Der Jahresabschluss ist damit festgestellt.

Die Ernst & Young GmbH, Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main, darf letztmalig für das Geschäftsjahr 2023 als Abschlussprüfer beauftragt werden. Daher hat der Prüfungsausschuss ein Auswahlverfahren auf Grundlage des Art. 16 EU-Verordnung 537/2014 durchgeführt. Daraufhin hat der Prüfungsausschuss dem Aufsichtsrat empfohlen, der Hauptversammlung im Jahr 2024 die Mazars GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, Hamburg, als Abschlussprüfer für das Geschäftsjahr 2024 vorzuschlagen. Der Aufsichtsrat hat daraufhin beschlossen, der Empfehlung zu folgen.

Besonderer Dank gilt allen Mitarbeiterinnen und Mitarbeitern, die durch ihren großen Einsatz maßgeblich zum Wohle der Bank beigetragen haben.

Frankfurt, 24 May / Mai 2022

The Supervisory Board / Der Aufsichtsrat

R. Francioni

Prof. Dr. Reto Francioni
Chair of the Supervisory Board / Vorsitzender des Aufsichtsrat UBS Europe SE

Numbers presented throughout this report may not add up precisely to the totals provided in the tables and text due to rounding

UBS