UBS Europe SE

Annual Financial Statements as of 31 December 2018
(and complementary disclosures)

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

Independent auditor's report

To UBS Europe SE

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

Opinions

We have audited the annual financial statements of UBS Europe SE, Frankfurt am Main, which comprise the balance sheet as at 31 December 2018, and the income statement for the fiscal year from 1 January 2018 to 31 December 2018, 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 2018 to 31 December 2018. 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 2018 and of its financial performance for the fiscal year from 1 January 2018 to 31 December 2018 in compliance with German legally required accounting principles, and

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

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report. Our opinion on the combined management report does not cover the content of the statement on corporate governance pursuant to Sec. 289f (4) HGB (proportion of women in management positions) referred to above.

Basis for the opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German comercial 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 2018 to 31 December 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

Recognition and measurement of provisons for legal risks

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

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

Additionally, UBS Europe SE has received an indemnity guarantee from the Swiss parent company UBS AG 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 agreement 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 amount.

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

We inspected a sample of closed legal cases in 2018 in order to investigate the impact on the previous assumptions and therefore also on the calculation of the maximum indemnity.

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.

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.

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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 18 June 2018. We were engaged by the supervisory board on 22 June 2018. We have been the auditor of UBS Europe SE without interruption since fiscal year 2000.

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

- The audit of the reporting requirements and the rules of conduct pursuant to Sec. 36 (1) WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act) (unrevised) as well as Sec. 89 (1) WpHG and Sec. 36 (1) Sentence 2 WpHG as well as of the custody operations within the meaning of Sec. 1 (1) Sentence 2 No. 5 KWG for the reporting period 1 July 2017 to 30 June 2018.

German Public Auditor responsible for the engagement

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

Eschborn/Frankfurt am Main, 17 May 2019

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Balance Sheet as of 31 December 2018
UBS Europe SE
Bockenheimer Landstraße 2-4
60306 Frankfurt am Main

Assets

			31. December 2018	31. December 2017
	EUR	EUR	EUR	EUR k
1. Cash reserve				
a) Cash on hand		**1,566,626.05**		1,579
b) Balances at central banks		**5,753,904,304.14**		4,333,479
thereof: at Deutsche Bundesbank Euro 5,610,119,809.77 (prior year: EUR k 4,210,694)			**5,755,470,930.19**	**4,335,058**
2. Due from banks				
a) Payable on demand		**1,285,921,621.17**		4,568,096
b) Other amounts due		**9,044,960,022.11**		1,974,751
			10,330,881,643.28	**6,542,847**
3. Due from customers			**6,777,397,064.51**	**5,247,887**
thereof: secured by real estate property liens Euro 492,781,572.10 (prior year: EUR k 176,125)				
4. Debt securities and other fixed-income securities				
a) Money market securities				
aa) Issued by the public sector	217,601,719.54			125,582
thereof: eligible as collateral with Deutsche Bundesbank Euro 0.00 (prior year: EUR k 125,582)				
ab) Issued by other borrowers	260,931,355.96	**478,533,075.50**		321,431
thereof: eligible as collateral with Deutsche Bundesbank Euro 0.00 (prior year: EUR k 0)				
b) Bonds and debt securities				
ba) Issued by the public sector	166,150,690.98			210,200
thereof: eligible as collateral with Deutsche Bundesbank Euro 12,323,520.59 (prior year: EUR k 41,521)				
bb) Issued by other borrowers	501,167,376.29	**667,318,067.27**		451,826
thereof: eligible as collateral with Deutsche Bundesbank Euro 121,955,642.01 (prior year: EUR k 142,697)			**1,145,851,142.77**	**1,109,039**
5. Shares and other variable-yield securities			**772,099.65**	**1,234**
6. Equity investments			**629,452.00**	**11**
thereof: in banks Euro 0.00 (prior year: EUR k 0)				
thereof: in financial services institutions Euro 0.00 (prior year: EUR k 0)				
7. Shares in affiliates			**10,008,693.62**	**10,134**
thereof: in banks Euro 0.00 (prior year: EUR k 0)				
thereof: in financial services institutions Euro 9,704,113.20 (prior year: EUR k 0)				
8. Trust assets			**40,459,487.00**	**51,231**
thereof: trust loans Euro 0.00 (prior year: EUR k 0)				
9. Intangible assets				
a) Purchased franchises, industrial and similar rights and assets and licenses in such rights and assets		**1,409,762.93**		1,253
b) Goodwill		**127,562,349.48**		22,118
			128,972,112.41	**23,371**
10. Property and equipment			**19,649,125.35**	**19,075**
11. Other assets			**527,092,521.51**	**442,369**
12. Prepaid expenses			**4,716,011.10**	**7,937**
		Total assets	**24,741,900,283.39**	**17,790,193**

Balance Sheet as of 31 December 2018
UBS Europe SE
Bockenheimer Landstraße 2-4
60306 Frankfurt am Main

Liabilities and equity

				31. December 2018	31. December 2017
		EUR	EUR	EUR	EUR k
1.	**Liabilities to banks**				
	a) Payable on demand		**3,221,198,186.41**		1,073,751
	b) With an agreed term of period of notice		**99,224,902.20**		171,766
				3,320,423,088.61	**1,245,517**
2.	**Liabilities to customers**				
	a) Other liabilities				
	aa) Payable on demand		**18,315,817,316.66**		13,823,168
	ab) with an agreed term of period of notice		**640,425,529.54**		638,071
				18,956,242,846.20	**14,461,239**
3.	**Securitized liabilities**				
	a) Debt securities issued			**5,006,942.93**	4,943
4.	**Trust liabilities**			**40,459,487.00**	**51,231**
	thereof: trust loans Euro 0.00 (prior year: EUR k 0)				
5.	**Other liabilities**			**160,226,212.94**	**486,727**
6.	**Deferred income**			**572,780.51**	**1,049**
7.	**Provisions**				
	a) Provisions for pensions and similar obligations		**251,297,117.68**		231,808
	b) Tax provisions		**4,991,335.19**		9,817
	c) Other provisions		**114,874,110.10**		130,829
				371,162,562.97	**372,454**
8.	**Subordinated liabilities**			**790,859,401.66**	**0**
9.	**Fund for general banking risks**			**4,000.00**	**7**
	thereof: special reserve pursuant to Sec. 340e (4) HGB Euro 4,000.00 (prior year: EUR k 7)				
10.	**Equity**				
	a) Subscribed capital		**446,001,000.00**		446,001
	b) Capital reserves		**536,404,601.10**		536,405
	c) Revenue reserves				
	cd) Other revenue reserves	46,428,856.75	**46,428,856.75**		46,429
	d) Net retained profit		**68,108,502.72**		138,191
				1,096,942,960.57	**1,167,026**
			Total liabilities and equity	**24,741,900,283.39**	**17,790,193**
1.	**Contingent liabilities**				
	a) Guarantees		**106,397,616.49**		**87,745**
				106,397,616.49	**87,745**
2.	**Other obligations**				
	a) Irrevocable loan commitments		**26,117,907.38**		**85,279**
				26,117,907.38	**85,279**

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Income statement

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

for the period from 1 January 2018 to 31 December 2018

				2018	2017
		EUR	EUR	EUR	EUR k
1.	**Interest income from**				
	a) Lending and money market transactions	**105,911,287.32**			57,654
	thereof: Negative interest income from lending and money market transactions Euro 47,408,108.42 (prior year: EUR k 43,049)				
	b) Fixed-Income securities and government-inscribed debt	**27,548,480.82**	**133,459,768.14**		28,573
2.	**Interest expenses**		**54,164,588.99**		28,854
	thereof: Negative interest exenses Euro 24,717,398.99 (prior year: EUR k 22,032)				
				79,295,179.15	**57,373**
3.	**Current income from**				
	a) Equity investments		**41,850.01**		7,874
	b) Investments in affiliated companies		**16,266,128.99**		0
				16,307,979.00	**7,874**
4.	**Commission income**		**582,745,821.69**		574,144
5.	**Commission expense**		**86,049,460.71**		72,366
				496,696,360.98	**501,778**
6.	**Net income or net expense from trading book positions**			**2,500.00**	**18**
	thereof: Allocation to the special item/income from the reversal of the special item "Fund for general banking risks" Euro 2,500.00 (prior year: EUR k 18)				
7.	**Other operating income**			**89,319,488.11**	**111,989**
8.	**General administrative expenses**				
	a) Personnel expenses				
	aa) wages and salaries	**256,725,713.61**			245,510
	ab) Social security, pension and other benefit costs	**44,711,279.07**	**301,436,992.68**		43,520
	thereof: for pensions Euro 19,091,776.68 (prior year: EUR k 13,550)				
	b) Other administrative expenses		**252,122,908.79**		236,121
				553,559,901.47	**525,151**
9.	**Amortization, depreciation and write-downs of intangible assets and property and equipment**			**12,322,446.80**	**11,115**
10.	**Other operating expenses**			**25,761,179.56**	**15,867**
11.	**Write-downs of and allowances on amounts due and certain securities as well as allocations to provisions for possible loan losses**			**2,838,643.94**	**1,638**
12.	**Income from the write-up of amounts due and certain securities as well as from the reversal of provisions for possible loan losses**			**5,354,209.11**	**3,130**
13.	**Write-downs of and allowances on equity investments, shares in affiliates and securities classified as fixed assets**			**28,991.77**	**1,546**
14.	**Income from write-ups on equity investments, shares in affiliates and securities classified as fixed assets**			**12,229,837.88**	**0**
15.	**Results from ordinary activities**			**104,694,390.69**	**126,845**
16.	**Income taxes**			**36,560,610.56**	**37,352**
	thereof: Deferred taxes Euro 0.00 (prior year: EUR k 0)				
17.	**Other taxes not disclosed under item 10**			**25,277.41**	**1,302**
18.	**Net income for the year**			**68,108,502.72**	**88,191**
19.	**Withdrawals from the capital reserve**			**0.00**	**50,000**
20.	**Net retained profit**			**68,108,502.72**	**138,191**

UBS Europe SE
Notes to the financial statements as of 31 December 2018

General

The financial statements for fiscal year 2018 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 forms prescribed by the RechKredV.

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

Accounting and valuation principles

The accounting and valuation principles have not changed compared to the prior year.

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 and calculated in accordance with the letter from the Federal Ministry of Finance, dated 10 January 1994.

Debt securities and other fixed-income securities are held in the liquidity portfolio and are included in the valuation according to the 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 (**shares and other variable-yield securities**) are measured at amortized cost according to the modified lower of cost or market principle.

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

Equity investments and **shares in affiliates** are valued at 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 statement in future fiscal years.

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

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

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

Deferred taxes are measured using the respective national and company-specific tax rates at the expected realization date. The applicable tax rates are 31.93% in Germany (comprising corporate income tax of 15.83% plus the solidarity surcharge), 25.00% in Austria, 27.50% in Italy (IRES tax rate plus 5.57% IRAP), 26.01% in Luxembourg, 30.00% in Spain and 22.00% in Denmark and Sweden, with a reduction in Sweden to 21.4% as of 01 January 2019 and to 20.6% as of 01 January 2021.

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 for the past 10 fiscal years. Freely available reserves were retained for the difference in profit which would have arisen if discounting had been carried out using the average market interest rate for the last 7 fiscal years.

In calculating the 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 involving currencies, indices and interest rate agreements were valued at the prices and interest rates on the balance sheet date. Derivative transactions entered into to hedge the Bank's interest rate risk are included in the valuation of interest rate transactions in the banking book at net realizable value (IDW AcP BFA 3).

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 2018, 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 costs. As of the balance sheet date, there was no net obligation. No provisions were therefore recognized.

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

Hedge Accounting

In the past, the Bank had issued structured financial instruments in the form of certificates and note loans. The repayable amount of these instruments is dependent on the performance of stock indices, foreign currencies or other individual securities which are embedded as derivatives in the instrument along with the underlying instrument. The market risks relating to the issued instruments were fully hedged by offsetting transactions with either UBS AG, London Branch. The Bank designated offsetting transactions with the UBS AG branch in London which serve to hedge repayment claims as hedges together with the instruments issued. In the Bank's financial statements, the underlying instrument and embedded derivative are reported together under securitized liabilities (certificates) or liabilities to customers/banks (note loans/registered debt securities). Hedges, which were valued using the net method, were accounted for at the issue price taking accrued interest and discounts into account.

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

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

Notes to the balance sheet

Amounts due from banks

Due from banks		
	31 Dec 2018	**31 Dec 2017**
	EUR k	EUR k
Other amounts due in three months or less	8,118,378	938,274
more than three months and up to one year	807,795	866,070
more than one year and up to five years	98,787	106,246
more than five years	20,000	64,161
Total	**9.044.960**	**1.974.751**

Amounts due from customers

Due from customers		
	31 Dec 2018	**31 Dec 2017**
	EUR k	EUR k
Due in three months or less	2,996,834	2,150,749
more than three months and up to one year	2,349,817	2,095,413
more than one year and up to five years	416,203	517,941
more than five years	28,270	31,751
with an indefinite term	986,273	452,033
Total	**6,777,397**	**5,247,887**

Amounts due from affiliates and other investees and investors

Due from affiliates		
	31 Dec 2018	**31 Dec 2017**
	EUR k	EUR k
Amounts due from banks	3,943,892	2,751,264
Thereof amounts due from UBS AG	*3,852,881*	*2,667,671*
Amounts due from customers	10,594	10,794

Due from other investees and investors		
	31 Dec 2018	**31 Dec 2017**
	EUR k	EUR k
Amounts due from customers	10,012	10,012

Debt securities and other fixed-income securities

Debt securities and other fixed-income securities	
	31 Dec 2018
	EUR k
Due in the following year	790,768
Negotiable:	1,145,851
Listed:	1,145,851

Securities with a book value of EUR k 942,957 and a fair value (market value) of EUR k 941,363 are not valuated according to the lower of cost or market principle, because the bank is not expecting a long term and significant decline in value.

Shares and other variable-yield securities

Shares and other variable-yield securities	
	31 Dec 2018
	EUR k
Negotiable:	772
Listed:	-

"Shares and other variable-yield securities" include shares in a real estate fund and variable-yield debt securities.

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 [1]

Company	Capital in EUR	Share of capital	Net income in EUR
UBS Fiduciaria S.p.A., Milan[1]	864,527.00	100%	118,815.00
UBS Gestión Sociedad Gestora de Instit. Colectiva SA, Madrid[1]	10,823,556.80	100%	9,776,207.17
UBS Private Equity Komplementär GmbH, Frankfurt am Main[1]	27,527.67	100%	8,721.37

[1] Financial statements as of 31 December 2018 before final review by auditor.

UBS Europe SE
Notes to the financial statements as of 31 December 2018

Trust receivables and liabilities

Trust assets		
	31 Dec 2018	**31 Dec 2017**
	EUR k	EUR k
Equity investments	40,459	51,231

Trust liabilities		
	31 Dec 2018	**31 Dec 2017**
	EUR k	EUR k
Liabilities to customers	40,459	51,231

The Bank offers its customers the option of investing in private equity fund shares. The Bank concludes trust agreements with the customers to enable them to make small investments. This resulted in equity investments held in trust in the amount of the trust arrangements concluded (EUR 40.5 m).

Statement of changes in fixed assets

Acquisition or production cost						
in EUR k	Opening balance	Translation differences in opening balance	Additions	Disposals	Reclassifications	Closing balance
Shares and other variable-yield securities	5,623	-	433	-	-	5,190
Equity investments	44	620	35	-	-	629
Shares in affiliates	10,134	-	125	-	-	10,009
Goodwill	28,892	116,853	6,580	-	1,416	140,581
Other intangible assets	21,917	1,031	2	-	-	22,946
Property and equipment	99,017	5,731	974	-	173	103,947

	Write-downs							Book values	
in EUR k	Opening balance	Translation differences in opening balance	Additions	Write-ups	Disposals	Reclassifications	Closing balance	Opening balance	Closing balance
Shares and other variable-yield securities	4,389	29	-	-	-	-	4,418	1,234	772
Equity investments	33	-	1	32	-	-	-	11	629
Shares in affiliates		-	-	-	-	-	-	10,134	10,009
Goodwill	6,774	6,231	-	-	14	-	13,019	22,118	127,562
Other intangible assets	20,664	874	-	2	-	-	21,536	1,253	1,410
Property and equipment	79,942	5,218	-	971	109	-	84,298	19,075	19,649

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. has a remaining useful life of seven years.

In 2018, the goodwill arising in connection with the acquisition of Santander Private Banking Unit (SPB Unit Italia) was adjusted by virtue of a subsequent adjustment of the purchase price of EUR 6.6 m. The goodwill arising in connection with the acquisition of the SPB Unit Italia has a remaining useful life of five years. All goodwills are being amortized on a straight-line basis.

In October 2018 UBS Europe SE completed the takeover of Nordea's Luxembourg-based private banking business. This transaction resulted in the recognition of a goodwill amounting to EUR 116.9 m. The goodwill is being amortized using the straight-line method over the expected useful life of ten years.

Following the sale of the Wealth Management business in the Netherlands in 2017, remaining entity UBS Custody Services Netherlands B.V., Amsterdam, was liquidated in 2018.

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

As of the end of fiscal year 2018, **property and equipment** exclusively comprise furniture, fixtures and office equipment.

Other assets

“Other assets” mainly include variation/initial margins (EUR 354.4 m), receivables from the tax office (EUR 79.7 m) and receivables from group allocations (EUR 42.7 m).

Prepaid expenses

“Prepaid expenses” contain income from advance payments of non-staff operating costs (EUR 4.5 m) and premiums paid (EUR 0.2 m).

UBS Europe SE
Notes to the financial statements as of 31 December 2018

Liabilities to banks

Liabilities to banks		
	31 Dec 2018	**31 Dec 2017**
	EUR k	EUR k
With an agreed term or period of notice of three months or less	7,739	4,197
more than three months and up to one year	32,310	9,269
more than one year and up to five years	54,327	149,684
more than five years	4,849	8,616
Total	**99,225**	**171,766**

Liabilities to customers

Liabilities to customers		
	31 Dec 2018	**31 Dec 2017**
	EUR k	EUR k
With an agreed term or period of notice of three months or less	496,253	317,451
more than three months and up to one year	29,272	153,924
more than one year and up to five years	94,901	106,246
more than five years	20,000	60,450
Total	**640,426**	**638,071**

Liabilities to affiliates and to other investees and investors

Liabilities to affiliates		
	31 Dec 2018	**31 Dec 2017**
	EUR k	EUR k
Liabilities to banks	3,077,226	1,141,248
Thereof liabilities to UBS AG	*2,883,337*	*802,990*
Liabilities to customers	179,651	503,548

Liabilities to other investees and investors		
	31 Dec 2018	**31 Dec 2017**
	EUR k	EUR k
Liabilities to customers	10,592	9,234

Debt securities issued

Debt securities issued	
	31 Dec 2018
	EUR k
Due in the following year	2,801

Other liabilities

"Other liabilities" primarily comprise liabilities from intragroup settlements (EUR 49.4 m), liabilities to the tax office (EUR 24.2 m), variation/initial margins (EUR 7.6 m) and replacement costs of assets (EUR 1.8 m).

Deferred income

"Deferred income" primarily contains premiums received for the issuance of note loans (EUR 0.2 m) and income received in advance in the amount of EUR 0.4 m.

Provisions for pensions and similar obligations

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

The following assumptions were applied in measuring provisions for pensions:

- Actuarial interest rate: 3.21%
- Salary and income threshold progression rate: 2.50%
- Pension increases: 1.50% for old commitments (issued prior to 1 January 1999)
  1.00% for new commitments
- Turnover: average 14.00%

In accordance with Sec. 253 (6) HGB, the difference arising between discounting using a 10-year average interest rate and a 7-year average interest rate has to be calculated as of the reporting date. The 7-year average discount rate with a remaining term of 15 years as published by Deutsche Bundesbank (2.32%) 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 170.0 m and EUR 109.5 m, respectively.

Applying the corresponding 10-year average interest rate with a remaining term of 15 years in the amount of 3.21%, the pension provision and the deferred compensation provision would amount to EUR 151.8 m and EUR 98.0 m, respectively. This leads to a difference for pensions and deferred compensation of EUR 29.7 m, which may not be distributed or transferred.

Other provisions

"Other provisions" comprise the following main items:

Other provisions	
	31.12.2018
	EUR m
Bonuses	55.8
Legal risks and damages claims	20.8
Early retirement obligations	7.3
Accrual for vacation	6.0
Restructuring	4.7
Storage costs business documents	3.6
Fee reimbursement claims from retrocessions	1.7

Subordinated liabilities

The bank has emitted two subordinated loans to parent entity UBS AG with a cumulated volume of 790.0 m in total. The debtee bears full assumption of costs for the emission.

Subordinated liabilities				
nominal amount	**currency**	**interest rate**	**due date**	**capital**
290,000,000.00	EUR	Euribor 3m + 466 bp	unlimited	Tier 1 capital
500,000,000.00	EUR	Euribor 3m + 105 bp	12 June 2023	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.

Subscribed capital and shares

The subscribed capital of EUR 446,001,000 divided into 446,001,000 registered shares that are wholly owned by UBS AG, Zurich.

Capital and revenue reserves

The capital reserves remain unchanged with EUR 536.4 m.

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 75.0 m as of 31 December 2018.

EUR 29.7 m of the capital reserves pursuant to Sec. 272 (2) No. 4 HGB relates to the difference under Sec. 253 (6) HGB due to the adjustment of the discount rate (see the note on the pension provisions).

In June 2018, the entire net retained profit reported for fiscal year 2017 was distributed to the shareholder.

The revenue reserves are unchanged at EUR 46.4 m.

Contingent liabilities and other obligations

Contingent liabilities comprise guarantees provided, thereof EUR 0.5 m in favour of credit institutions of UBS group. There is no significant call risk.

All of the other obligations are irrevocable loan commitments.

Foreign currency assets and liabilities

Foreign currency assets totaled EUR 4,978.5 m, foreign currency liabilities totaled EUR 7,788.1 m and foreign currency position below the line item totaled EUR 16.8 m.

Notes to the income statement

Net interest income

Net interest income contains EUR 47.4 m in negative interest paid and EUR 24.7 m in negative interest received. The net expense is primarily attributable to the deposit with Deutsche Bundesbank.

Negative interest of EUR 8.7 m was paid to Deutsche Bundesbank as a result of intragroup euro clearing, while negative interest of EUR 8.7 m 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 the dividend payment received from UBS Gestión Sociedad Gestora de Instituciones de Inversión Colectiva SA, Madrid (Spain) (EUR 16.1 m).

Net commission income

Net commission income	
	EUR m
Custody account management	74.5
Wealth management	194.2
Brokerage of funds	133.0
Consulting on planned equity investments and mergers	31.1
Income from sales activities (equities, bonds and certificates)	13.8
Securities settlement	33.4
Other commissions	16.7
Total net commission income	**496.7**

Net income from trading book positions

The net income from trading book position results entirely from the scheduled release of the special reserve under section 340e para 4 HGB.

Other operating income

This item primarily contains group allocations (EUR 55.3 m), reversals of provisions (EUR 8.8 m) and currency translation income (EUR 1.1 m).

Other operating expenses

This item mainly includes payments and provision allocations in connection with customer complaints resulting in court proceedings (EUR 2.9 m) and expenses of EUR 9.0 m from unwinding discounts on provisions as of 31 December 2018 (thereof pension obligations and deferred compensation of EUR 8.4 m).

Geographical breakdown

Geographical breakdown			
in EUR k	**Net interest income**	**Net commission income**	**Other operating income**
Germany	-8,735	164,712	54,457
Luxembourg	59,238	126,844	16,457
Italy	17,543	146,742	8,319
Spain	8,892	37,911	8,962
Austria	2,357	20,511	1,156
Sweden	0	-10	4
Denmark	0	-14	-36 [2]
Total UBS Europe SE	**79,295**	**496,696**	**89,319**

The other disclosure for fiscal year 2018 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 2018 reports a net retained profit of EUR 68.1 m.

The Management Board proposes the distribution of the full amount of the net retained profit reported as of 31 December 2018 to the shareholder. This corresponds to a dividend of EUR 0.15 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 2027 for all buildings come to EUR 110.2 m, EUR 57.7 m of which relates to the Opernturm building (UBS Group).

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

Contingent liabilities

There were no further contingent liabilities as of 31 December 2018.

[2] Result from foreign currency conversion.

Derivative financial instruments:

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

- Foreign currency forward transactions
  - Forward exchange contracts

- Interest rate swaps

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

Hedges

The Bank issues structured financial instruments which are offered in the form of certificates and note loans. The Bank also issues plain vanilla products, which it offers its customers as note loans and registered debt securities. For the structured products, the repayment value is linked to the performance of the underlying instruments. For the plain vanilla products, the Bank pays a fixed rate of interest. The Bank has concluded offsetting transactions with UBS AG, London Branch, to hedge its repayment and individual payment obligations under the financial instruments it has issued. The Bank uses these offsetting transactions to hedge against its entire market, foreign currency and interest rate risk from all issues. The issue positions are grouped together with the offsetting transactions to form hedges. These hedge a volume with a book value of EUR 161.7 m, exclusively as micro hedges.

Hedge transactions protect against currency risks with a fair value of EUR 4.0 m. In addition, hedges protect against interest rate risks with a fair value of EUR 163.8 m.

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

Business volume of derivatives and forward transactions:

Derivatives used as hedges for issuing transactions:

	Nominal amount	**Fair value**	
		pos.	**neg.**
	EUR m	EUR m	EUR m
Equity/index swaps	41.9	0.0	47.9

Derivatives and forward transactions used in the agency business:

	Nominal amount	**Fair value**	
		pos.	**neg.**
	EUR m	EUR m	EUR m
Currency transactions	35.261,1	131,1	131,0
Interest rate transactions	6.316,0	94,8	94,8
Equity/index-related transactions	11.549,1	1.817,1	1.817,1
Other transactions	60,8	0,1	0,1

Derivatives and forward transactions used in treasury:

	Nominal amount	Fair value	
		pos.	neg.
	EUR m	EUR m	EUR m
Currency transactions	3.416,2	5,3	1,7
Interest rate transactions	6.078,7	8,9	1,6

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

All transactions were concluded at arm's length with credit institutions of UBS Group.

Auditor's fees

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

Related party disclosures

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

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

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

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

All transactions were concluded at arm's length.

Significant events after the balance sheet date

As part of UBS's planning strategy in response to the decision of the United Kingdom ("UK") to leave the European Union ("EU") on 29 March 2019 ("Brexit"), all businesses and divisions of UBS Limited, London, were transferred to UBS Europe SE with effect from 1 March 2019 carried out by means of a combined business transfer and cross-border merger pursuant to European Cross Border Mergers Directive 2017/1132/EU, Part VII of the UK Financial Services and Markets Act and sections 122a et seq. of German Business Transfer and Merger Act (Umwandlungsgesetz).

The objective of the transfer is to ensure that UBS can continue to provide comprehensive and reliable investment banking services to existing investment bank customers, and continue to provide services, in certain EU jurisdictions after Brexit.

The merger plan notarized on 12 October 2018 was registered and published by the local commercial court of Frankfurt am Main (Handelsregister beim Amtsgericht Frankfurt am Main) on 30 October 2018.

Supervisory authorities have granted approval to the business transfer on 24 January 2019 (cross-border merger) and on 5 February 2019 (Part VII) by the UK High Court of Justice.

As part of the merger, financial instruments, receivables and liabilities with a gross volume (before intra-group consolidation) of EUR 38.7 billion were transferred. In result the transferred business will be fully reflected in the income statement of UBS Europe SE for the 2019 financial year from March 2019 onwards. In addition approx. 60 employees will be relocated to Frankfurt and other locations and offices of UBS Europe SE within the EU.

The new businesses and transactions are predominantly assigned/ allocated to the business unit Investment banking and Treasury (Asset/ Liability Management) of UBS Europe SE. The transferred product portfolio also includes products that were not previously part of the portfolio structure of UBS Europe SE. This applies in particular repo transactions with credit institutions, syndicated loans, extensive volumes of cash collateral positions deriving from derivatives, shares and equities held for trading, debt securities as well as interest, equity and currency swaps and options respectively.

The Mannheim Prosecutor filed proceedings with the Mannheim Regional Court on 31 October 2018 (received by UBS ESE on 23 November 2018) with an administrative claim under Sections 30, 17 para 4 of the Administrative Offence Act in relation to alleged aiding and abetting of tax evasion for the period 2001-2012. The Mannheim Prosecutor seeks to impose a fine of EUR 1.0m plus disgorgement of profits in the sum of EUR 82.2m.

In a decision of 16 April 2019 the Mannheim Regional Court opened the trial against UBS Europe SE (as legal successor of UBS Deutschland AG). Trial commenced on 16 May 2019 and is ongoing.

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 (IFRSs) as issued by the International Accounting Standards Board (IASB). These are the consolidated financial statements for the largest group of companies. The consolidated financial statements and the Group management report for 2018 of UBS Group AG, Zurich, are available on the UBS website and are published in German in the elektronischer Bundesanzeiger [Electronic German Federal Gazette] by UBS Beteiligungs-GmbH & Co. KG, Frankfurt am Main.

In addition, UBS Europe SE is included in the consolidated financial statements of UBS AG, Zurich, which are also prepared in accordance with IFRSs. These are the consolidated financial statements for the smallest group of companies. The consolidated financial statements of UBS AG, Zurich, are available on the UBS website.

Disclosure

The disclosure report for the year ended 31 December 2018 is published on the UBS Europe SE website at https://www.ubs.com/de/de/ubsgermany/finanzberichteundmitteilungen.html.

UBS Europe SE
Notes to the financial statements as of 31 December 2018

Governing bodies

Supervisory Board

- Roland Koch, Chairman,
  Independent attorney, Former Prime Minister of the State of Hesse, Frankfurt, Germany

- Jakob Stott, Deputy Chairman, (until 31 December 2018),
  Divisional Vice Chairman Wealth Management, UBS Switzerland AG, Zurich, Switzerland

- Miriam Gonzalez-Durantez, Deputy Chair, (since 1 March 2019),
  Of-Counsel, Washington DC, United States of America

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

- Dr. Ulrich Körner,
  President Asset Management and President Europe, Middle East and Africa, UBS AG, Zurich, Switzerland

- Jean-Marc Lehnertz*,
  Investment Platforms and Solutions, UBS Europe SE, Luxembourg

- Jonathan (Bobby) Magee, (since 1 March 2019),
  Consultant, Guildford, United Kingdom

- Emma Molvidson,
  Chief of Staff President Investment Bank, UBS AG, Zurich, Switzerland

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

- Tanja Christiane Weiher,
  Chief of Staff to the Group CEO, UBS AG, Zurich, Switzerland

- Dr. Martin Christof Wittig,
  Board of Directors of mcw Management Services AG, Samedan, Switzerland

*Employee representatives

In accordance with the resolution of the Annual General Meeting dated 18 June 2018, remuneration totaling EUR 80 k was paid to the employee representatives on the Supervisory Board in the fiscal year. Remuneration totaling EUR 260 k was paid to the independent members of the Supervisory Board.

UBS Europe SE
Notes to the financial statements as of 31 December 2018

Management Board

- Thomas Rodermann, Spokesman of the Board,
  Head Wealth Management and Asset Management, UBS Europe SE, Frankfurt, Germany

- Birgit Dietl-Benzin,
  Chief Risk Officer, UBS Europe SE, Frankfurt, Germany

- Georgia Paphiti, (since 01 June 2018)
  Chief Financial Officer, UBS Europe SE, Frankfurt, Germany

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

- Tobias Vogel, (since 01 March 2019)
  Head Investment Bank, UBS Europe SE, Frankfurt

- Stefan M. Winter,
  Head Investment Bank, UBS Europe SE, Frankfurt, Germany

- Fabio Innocenzi, (until 24 September 2018)
  Market Head Italy and Iberia, UBS Europe SE, Milan, Italy

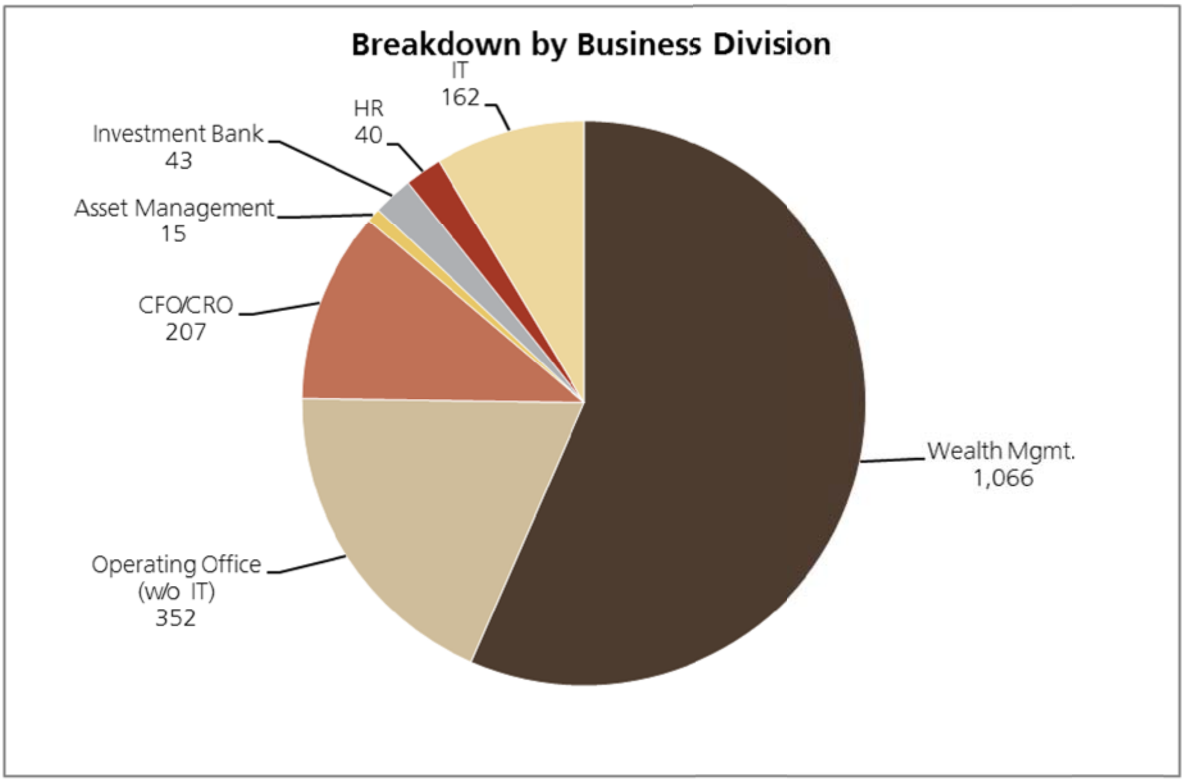
- René Mottas, (until 06 October 2018)
  Market Head Luxembourg and Netherlands, UBS Europe SE, Luxembourg

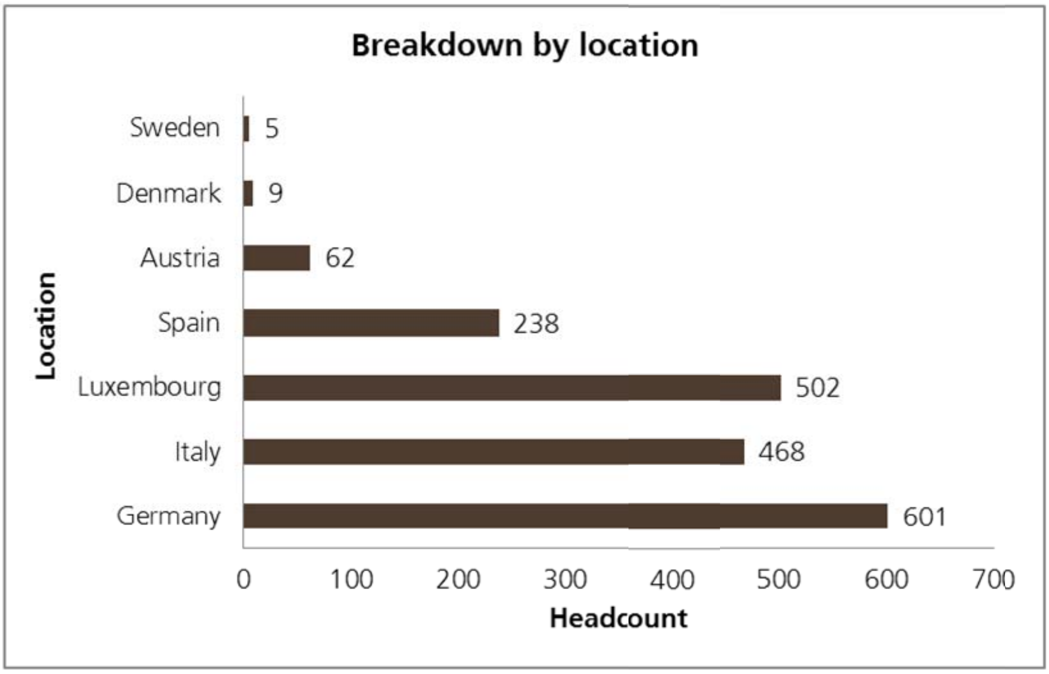
Remuneration for the members of the Management Board amounted to EUR 8.0 m in the fiscal year. This amount includes the basic salary, variable remuneration and other remuneration components.

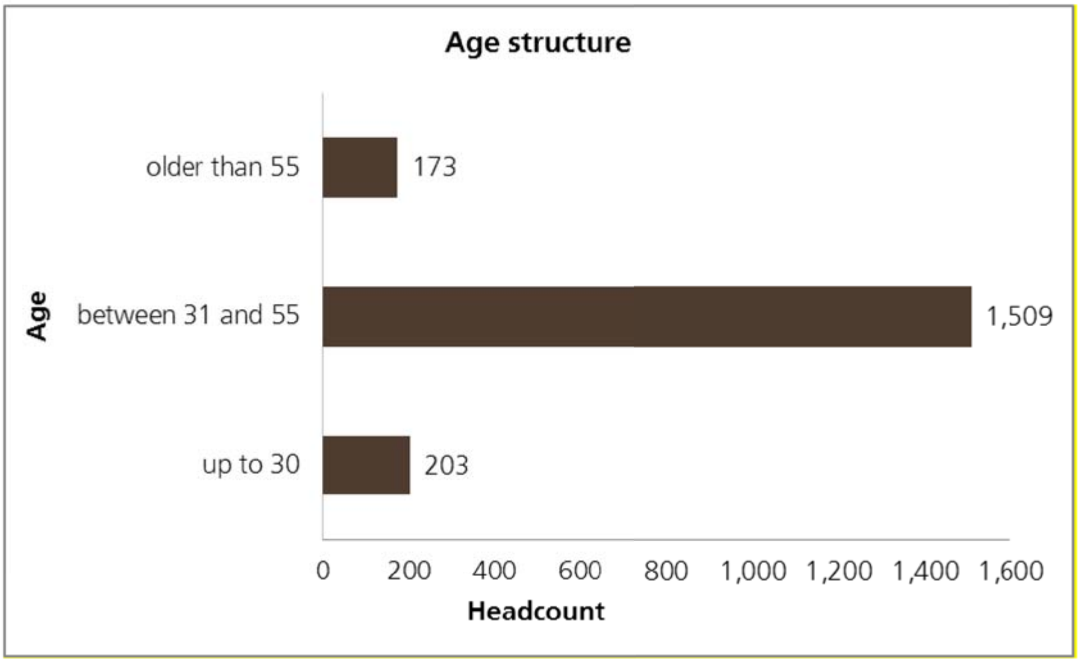
EUR 2.5 m was paid to former members of the Management Board, i.e., members of the former UBS Deutschland AG and their survivors; the pension provisions for this group were EUR 37.1 m on 31 December 2018.

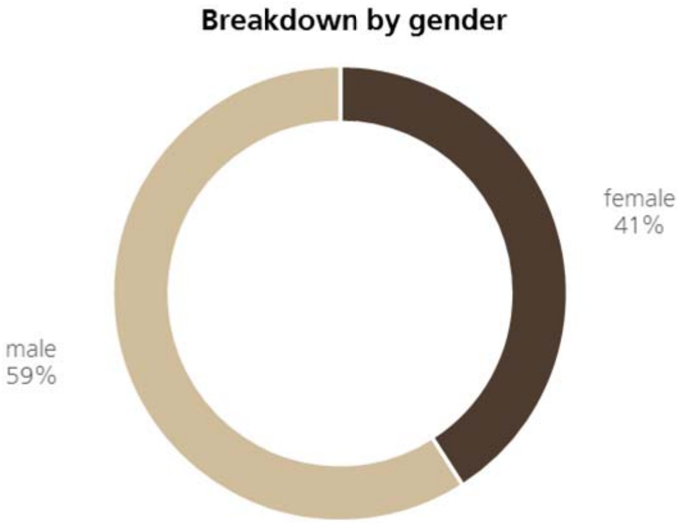
Employees

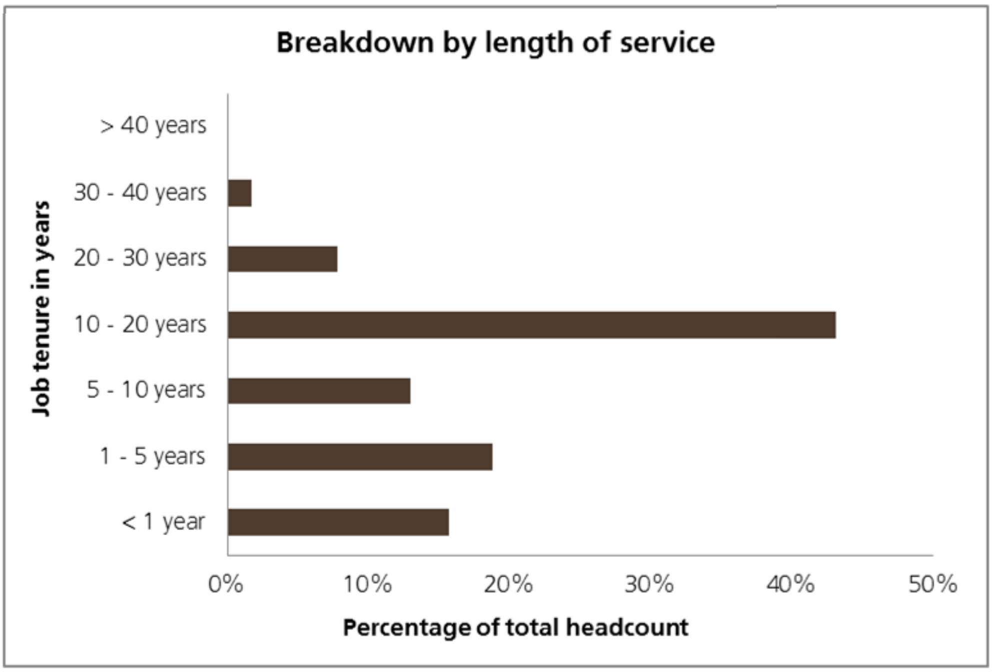
As of 31 December 2018, the headcount was 1,885. The average number of employees during 2018 was 1,778. 30 employees were on parental leave as of 31 December 2018.






Age structure
older than 55
173
between 31 and 55
1,509
up to 30
203
Age
0
200
400
600
800
1,000
1,200
1,400
1,600
Headcount


Breakdown by gender
female
41%
male
59%



Frankfurt am Main, 10 May 2019

UBS Europe SE

- Managing Board -

Thomas Rodermann	Birgit Dietl-Benzin	Tobias Vogel
Georgia Paphiti	Dr. Andreas Przewloka	Stefan M. Winter

UBS Europe SE
Annual Report 2018 – Management Report

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I. Business Report

Divisions and organization

UBS Europe SE, based in Frankfurt, has been created in 2016 by merging several wealth management subsidiaries of UBS group into a single pan-European entity and is one of the leading financial services provider for wealth management in Europe.

The bank is a direct, hundred percent subsidiary of UBS AG, Zurich. Its organizational structure comprises the divisions Wealth Management (WM), Investment Bank (IB) and Asset Management (AM).

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

On January 25th 2018, UBS Europe SE announced that it has entered into an agreement with Nordea Bank S.A. to acquire a part of Nordea's Luxembourg-based private banking business. The transaction was closed in the second half of 2018. The business onboarded at UBS Europe SE reaches assets of approximately EUR 9.5 billion as of 31st December 2018.

UBS Europe SE keeps **Wealth Management** as its core business, for Ultra High Net Worth (UHNW) clients including Family Offices, High Net Worth (HNW) and Affluent client segments within the European Union. The Financial Intermediaries (FIM) client segment supports UBS Europe SE's business by providing access to markets and clients beyond the bank's client advisor network. The Wealth Management division encompasses six branches in Germany and 22 branches in Europe, including Spain, Italy, Luxembourg, Austria, Denmark and Sweden. In Germany, Luxembourg, Italy, Spain and Austria UBS Europe SE also acts as a strategic business partner for financial intermediaries.

The **Investment Bank** products are exclusively offered in Germany. At its core, the Investment Bank is divided into two independent and aligned business units: Corporate Client Solutions (CCS) and Investor Client Services (ICS).

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

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

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

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

As part of UBS's planning strategy in response to the decision of the United Kingdom ("UK") to leave the European Union ("EU") ("Brexit"), all businesses and divisions of UBS Limited, London, were transferred to UBS Europe SE with effect from 1 March 2019 carried out by means of a combined business transfer and cross-border merger pursuant to European Cross Border Mergers Directive 2017/1132/EU, Part VII of the UK Financial Services and Markets Act and sections 122a et seq. of German Business Transfer and Merger Act (Umwandlungsgesetz).

The objective of the transfer is to ensure that UBS can continue to provide comprehensive and reliable investment banking services to existing investment bank customers, and continue to provide services, in certain EU jurisdictions after Brexit.

UBS Europe SE offers **Asset Management** services to (I) Institutional investors such as insurance companies, pension funds, companies, pension insurance carriers, church institutions and foundations, (II) Wholesale clients (banks, savings banks and other financial service providers) and (III) UBS Wealth Management clients. The distribution department of Asset Management is located in Austria, Luxembourg and Spain.

Value proposition

Value proposition of UBS Europe SE is based on a sustainable client performance and allows the bank to establish successful long-term relationships with their clients, based on mutual trust while strictly implementing regulatory requirements.

Focus of UBS is on the positioning of its expertise as a leading holistic wealth advisor, its products and services, on UBS as a "thought leader" and on topics such as digitalization and innovation. The key messages of the bank are: capital strength, solvency and client centric driven strategy.

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

Strategy

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

With regards to **Wealth Management**, the ambition of UBS Europe SE is (I) to grow the traditional and core business through focused and disciplined execution of the strategic levers and priorities, (II) make a fundamental shift towards embedded risk culture and management, (III) gain efficiency by the expansion of a scalable operating platform, (IV) developing the best talents.

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

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

The Investment Bank strategy focuses on a client-centric offering that helps UBS Europe SE to provide added value to the clients and be a leader in the areas chosen to compete in. The Investment Bank is implementing disciplined growth initiatives to help taking market share profitability, propelled by continued innovation in the digital space. The IB is one team with a shared culture, vision and strategy.

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

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

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

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

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

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

Management systems

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

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

For 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.

II. Economic Report

Financial performance indicators

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

The following performance indicators are analyzed on a monthly basis:

- Cost/income ratio: The financial year 2018 resulted in EUR 696.3m revenues and EUR 591.6m cost. The cost/income ratio of 85% was slightly lower than the plan of 86%, so the target has been achieved.
- Profit before taxes per division and per location: The bank discloses the profit before taxes per division and per location at the internal management information system. Compared to previous year, all major branches increased their result (Germany + 105%, Spain + 83%, Luxembourg + 23%, Italy + 7%).
- Net inflow of funds (Net New Money): The Net New Money for 2018 was planned slightly above EUR 6 bn. This target has not been achieved with EUR 5.2 bn Net New Money in 2018 – being 14% below target. While Germany, Austria and Spain exceeded their targets, Italy and Luxembourg ended below budget.
- Return on Assets (margin on invested assets): In the wealth management business segment, the profitability of the invested assets is expressed by the Return on Assets ratio. The invested assets as well as the respective revenues increased by around 8%. Accordingly, the margin remained stable compared to 2017. The expectation made last year, that UBS will be able to outperform the market grow was herewith confirmed.
- Head count development of front and support functions: As part of its efficiency program, the bank reduced the number of employees, but followed a different strategy for employees with direct client contact. The support staff per client advisor ratio for Wealth Management has been further reduced from 0.50 in 2017 to 0.48 in 2018, which confirmed last year's forecast.

Non-financial performance indicators

The performance of UBS Europe SE cannot be measured using financial indicators alone. Competitiveness and target achievement are largely – as with every service company – dependent on the quality of the employees. Therefore UBS Europe SE actively promotes staff commitment, qualification and performance. Employee satisfaction is measured in group-wide employee surveys on a regular basis (last completed in September 2018). The result of the employee satisfaction survey is analyzed by the senior management. Employees are informed of positive aspects and areas in need of improvement. Corresponding measures are developed and implemented accordingly.

The level of staff turnover at UBS Europe SE was 9.3 % overall and varied between 0 % in Denmark and 22.2 % in Sweden. In Germany staff turnover was 11.3%. The average length of service of permanent employees is approximately 12.1 years, showing the shortest length of service in Sweden with 3.7 years and the longest in Luxembourg with 12.3 years.

Employees

The employees are an essential part of the bank's success and it is recognized that the professional and personal development of the employees is a basic prerequisite for the performance of UBS and the ability to compete.

UBS Europe SE supports and encourages all employees in their personal development. The promotion of professional and personal development is linked to the skills and capabilities of each employee, their engagement and motivation.

Strategy of UBS is to recruit first-class professionals and hire and develop young talents in all areas to strengthen the organization and increase the diversity of the workforce.

To avoid a high level of staff turnover among top performers, individual staff retention measures have been agreed and implemented. In 2018, Human Resources supported recruiting and onboarding activities linked to Brexit during 2019.

While diversity and inclusion are a priority throughout the UBS Europe SE locations, the range of activities may vary depending, among other things, on the size of the local entity. For instance, the Italy Branch has developed a Diversity and Inclusion (D&I) program that includes both training plans and specific initiatives aimed at creating an inclusive corporate culture. Over the course of 2018 Germany has rolled out a group-wide initiative called "Power of Perspectives", which enhances the effort to change corporate culture by increasing the awareness of personal biases in order to obtain conscious decision-making and better business results.

The Luxembourg branch (formerly UBS (Luxembourg) S.A.) as another example signed the "Charte de la diversité Lëtzebuerg" which remains valid. In addition, senior management participated in "Lunch & Learn" sessions organized by the Women`s Business Network in Luxembourg with the aim to provide an insight into the career path of senior managers.

UBS has been focused on the promotion and advancement of women in management positions both globally and locally. To support these efforts the focus lies on:

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

Pursuant to Article 76 (4) and § 111 (4) AktG (“Aktiengesetz”: German Stock Cooperation Act) in conjunction with the FührposGleichberG (“German Act on the Equal Participation of Women and Men in Management Positions"), in 2015 the predecessor of UBS Europe SE (UBS Deutschland AG) defined targets for the ratio of female employees on the Supervisory Board, the Management Board and the two management levels below the Management Board. In 2018, the Management Board confirmed the former quote of 27 % for women in the first management level below Management Board and 20 % for the second management level. As of 31.12.2018 the ratio of women to men in the UBS Europe SE Supervisory Board is 1:2, thus meeting the minimum female representation threshold of 30 %. The female representation in the Management Board increased to 40 % by the end of 2018, with a female-to-male ratio of 2:3

UBS Europe SE strongly advocates a healthy work-life balance through the promotion of various activities including - depending on location - part-time work, funded childcare provided via cooperation partners and reintegration management programs. In Germany for example, UBS is able to offer 30 childcare spaces for children under three years and ten Kindergarten places for children aged between three and six. Under the reintegration management program, employees can go on long-term absence (e.g. maternity leave) safe in the thought that their roles will be safeguarded and temporarily covered by current employees, fixed-term contracts or secondments. Furthermore, an integrated local occupational health management program (e.g. health checks) is in place to foster the long-term wellbeing of employees in an ever-changing working environment. In 2018, UBS group once again held a global health day followed by various health initiatives in various UBS locations.

As an effort to better adapt to the needs of the current workforce, the pilot program "agile working" - currently in place in Italy - which allows employees to work flexibly and in a more innovative way from home, has been extended from 2 to 4 days a month. This initiative is having a positive impact on the work-life balance, an index that UBS regularly monitors in the internal employees survey. As of January 2018 the "Agile Working Initiative" was also implemented in Germany.

All employees are responsible for their individual development and are supported in their professional growth by their line manager. The objective of the learning programs of UBS Europe SE is the continuous professional development of the employees, to enable them to tackle the current challenges as well as to prepare them for the future, thus paving the way to the bank's success.

An analysis of the training needs of the German employees was carried out in 2018. Line mangers of different departments were surveyed. The analysis showed training needs in the areas of health, sales, leadership and personal skills. The first trainings on health, sales and personal skills have already started successfully in the second half of 2018. Furthermore a newsletter to all employees with information regarding the HR initiatives was started.

The program "Ruthless Efficiency" was recently rolled out to employees in Germany. The objective of the program is to help employees work more efficiently. In addition, the program "Resilience" was introduced to inform employees about stress and its effects to the body. Employees learned recovery techniques and how to implement them in the workplace. Finally, the program "Integrated Advice and Next Generation" covered techniques for a more success-driven sale. In particular, the training focused on how to communicate with the generation of millennials. Further training sessions will be organized over the course of 2019 to respond to the training needs identified.

The mentoring initiative, which was successfully piloted in Germany for all new joiners in 2017, continued in 2018. Under this initiative, local Management Committee members act as mentor to less experienced employees which generated very positive feedback. In addition, the UBS Zurich social counseling for private or job related questions was extended to the German employees since February 2019.

In Germany, following the employment protection act (Arbeitsschutzgesetz (ArbSchG)), a mandatory vulnerability analysis has been conducted 2018 in all branches outside Frankfurt.

As part of the Corporate Social Responsibility (CSR) program, UBS Europe SE actively engages in local community work. One example is the Community Affairs Working Group in Germany, which motivated more than 333 volunteers - being around 45% of the total workforce in Germany – to social voluntary commitment during working hours. Numerous initiatives in the areas youth development and education – e.g. a professional orientation program - social entrepreneurship and refugee aid / integration were started in Germany. Another example is Italy, where 94 volunteers offering a total of 1,203 hours over the course of 2018 were involved in different local initiatives. The UBS teams involved have used their collective expertise to select partners, recruit volunteers among UBS employees and tackle some of the current major educational, employment and social issues. The community affairs activity is recognized both at country and international level within UBS, with dedicated awards.

Non-financial report

UBS AG has issued a separate non-financial group report and published it in accordance with Article 114 WpHG. The report contains a consolidated Global Reporting Initiative (GRI) document, providing comprehensive disclosures on environmental, social and governance (ESG) factors and including the disclosures on non-financial information required by German law implementing the EU directive 2014/95 (CSR-Richtlinie-Umsetzungsgesetz / CSR-RUG). The GRI document is available in English under "Annual reporting" at www.ubs.com/investors. UBS Europe SE is therefore exempted from the issuance of a non-financial report in accordance with Article 298b HGB and refers to the GRI document for details on the mentioned subjects.

Overall economic environment

The global economy performed slightly above its long term trend across 2018, with US growth and corporate earnings surprising on the upside, while China showed some less strength than what was forecasted. The impact of fiscal stimuli in the US, the surge of trade tensions and the huge swings on energy prices as well as a more restrictive environment on interest rates and liquidity are the main drivers to explain the last year's economic path.

The new year starts with the risk of a new recession in the short term in the US slowly fading, as the Fed de-escalates its strong stance on rates forecast, introducing some more dovish and market awareness elements in its speech early 2019. For the moment, UBS's perspective on US rates is that there will be one more hike to be delivered in September 2019. Key inflation references for the Fed, such as Core PCE, are by now forecasted to be around or below target in the four coming quarters, despite a still projected strong labor market and GDP growth. For the EU, no hikes sooner than 4Q2019 are to be expected and the principal monetary element to be addressed will be the LTRO cliff by mid-year 2019, most probably with a fresh liquidity program to replace the maturing ones.

Additionally, trade rhetoric is somehow improving between the US and China. This is an important element, as trade frictions are one of the main drivers for the short term weakness on both economies, even though UBS's estimated impact on China is roughly double than on the US. In fact, China recently showed its weakest growth figures for the decade, impacted by trade and internal measures to put leverage under control.

UBS expects global growth to decelerate to 3,6% (2,4% US, 6% China, 1,6% Eurozone). Global corporate earnings are to be growing between 5 to 7 percent, while benchmark rates still have some room to grow, with 10 year US Treasury bonds climbing again above 3% and German 10 year bunds up to 0,8%. Corporate spreads should be looser than 4Q2018, but off its recent lowest levels (1Q2018), as the economic cycle matures. As for the US dollar, UBS still expects a downward trend against most of its major crosses. Accumulating fiscal deficit, a looser Fed and tighter monetary stances from other Central Banks, such as ECB, BoJ or BoE are the key elements for this weaker forecast.

Business in 2018

The European Wealth Management market is undergoing fundamental structural changes with significant implications for UBS Europe SE, e.g. customer protection, MiFID II, regulatory changes, pressure from local regulators and technological change.

In 2018, UBS' **Wealth Management** division has witnessed solid net new money (NNM) growth across all branches. However, negative market performance in the last quarter of 2018 has affected assets evolution. Costs have been strictly monitored at all levels. Implementation of MiFID II has been a common factor across all industry.

Although UBS Europe SE's market environment faces increasing competition, with its EUR 128 bn of assets under management as of December 2018, the bank remains one of the leading globally active wealth managers in the region and was able to meet its goals with respect to business growth. Accordingly, the prognoses of the bank concerning a positive development of its core business, the Wealth Management, were proven correct. Hence, UBS Europe SE strengthened its revenue base through the acquisition of new customers and additions to stocked assets by existing customers.

Investor Client Services (ICS)

Investor Client Services enables the clients to buy, sell and finance securities on capital markets across the globe and to manage their risks and liquidity. ICS business is focused on helping institutional clients engage with local markets globally, offering equities and equity-linked products, foreign exchange, rates and credit, and is underpinned by the research offering of UBS.

In Cash Equities, UBS Europe SE has a competitive advantage over foreign banks due to the local presence with sales specialists supported by local research experts in Frankfurt, while at the same time being able to access the global expertise of UBS Investment Bank.

In Global Equity Derivatives and Commodities, the bank offers a broad spectrum of tailored solutions products to large institutional clients such as asset managers, pension funds and insurance companies. Focus areas include risk premia, systematic option strategies and fund-linked products which are provided to the clients through a variety of wrappers. In the retail segment, the focus is on the expansion of the Public Distribution platform with new innovative payout profiles and the addition of external trading partners. For Financial Intermediaries and smaller asset managers, the priorities are actively managed investment products and white labelling solutions.

Debt Capital Markets (DCM) was integrated more strongly into structured solutions business and the bank has expanded the rate flows business using structured derivatives, private placements (callable/plain), new issues and priority transactions which do not have a significant impact on the balance sheet. Furthermore, throughout the course of 2018, the Solution Team has successfully completed a number of significant structured finance transactions. For institutional clients, the focus is further on Euro denominated structured investment solutions with a positive yield expectation.

Corporate Client Solutions (CCS)

Corporate Client Solutions combines UBS expertise and service offering in Germany and Austria, in industry verticals and in investment banking products. The bank leverages the global reach and macro views complemented by perspectives within industry sub-sectors for the strategic client dialogue. Through the CCS business, UBS Europe SE advises clients on strategic business opportunities, assists them to raise debt or equity capital to fund their activities while minimizing cost of capital and risk.

CCS Germany again has had a good year 2018 with continued revenue growth from all relevant segments. Performance has been strong across Mergers & Acquisitions (M&A), Equity Capital Markets (ECMG) and Leveraged Finance (LCM) and stable in Debt Capital Markets (DCM). UBS continues to grow the advisory business (M&A) to assist the clients in strategic and complex transactions around the world. The strategic client universe is centered around a selected core group of corporate clients as well as private equity funds and their portfolio companies. In ECM, UBS has been involved in many landmark transactions in Germany including large IPOs like Siemens Healthineers, Knorr Bremse or Bawag and also in the Deutsche Bank rights issue. In the equity linked segment, UBS successfully placed the third exchangeable note into Evonik on behalf of RAG Stiftung. The Strategic Equity Solutions business continues to deliver tailored financing, risk management and balance sheet solutions to the core client franchise with focus on structured share buybacks and margin loans. LCM continues to be an important growth segment for CCS Germany. UBS Europe SE supported the LBO financing of various transactions in the German market, amongst others the LBO of Ceramtec on behalf of BC Partners or the acquisition of selected industrial gases assets for Messer anc CVC. DCM business remains a stable and important contributor within CCS focused on lending to selected clients, supporting UBS relationships with innovative and tailored solutions to the clients.

In spite of the demanding market environment, the **Asset Management** division achieved a good result in 2018.

Rating

UBS Europe SE was rated on a stand-alone basis by the three major rating agencies for the first time in 2018. The ratings (senior unsecured debt ratings) are as follows:

	2018
S&P	A+
Moody's	(P) Aa3
Fitch	AA-

Financial position

Net assets

The bank's net assets are in order.

The balance sheet total increased to EUR 24.7 bn for the current year (prior year: EUR 17.8 bn) The increase mainly results from the increase in deposits with the German Central Bank (Deutsche Bundesbank) and intercompany receivables from UBS AG.

Key items were receivables from credit institutions (42 % of total assets), customer receivables (27 %) and reserves with central banks (23 %). Further items affecting net assets are described below.

Cash reserve

As of the balance sheet date 2018, the credit balance with central banks was EUR 5.8 bn (prior year: EUR 4.3 bn), thereof EUR 5.6 bn (prior year: EUR 4.2 bn) with Deutsche Bundesbank. This represents an increase of EUR 1.5 bn with regard to the cash reserve as of 31st of December 2017.

Receivables from credit institutions and customers

Total receivables increased by EUR 5.3 bn compared to the previous year. The deposit facility with the Deutsche Bundesbank increased by EUR 2.5 bn and the receivables from affiliated companies increased by EUR 1.2 bn. Receivables from customers also increased by EUR 1.5 bn.

	31/12/2018	31/12/2017	Change	
	m. EUR	m. EUR	m. EUR	%
Receivables from credit institutions	10,331	6,543	3,788	57.9%
Receivables from customers	6,777	5,248	1,529	29.1%
Total Receivables	**17,108**	**11,791**	**5,317**	**45.1%**

Liabilities to credit institutions and customers

Total liabilities increased by EUR 6.6 bn compared to the prior-year value. The growth is mainly due to the increase of intercompany liabilities with UBS AG.

	31/12/2018	31/12/2017	Change	
	m. EUR	m. EUR	m. EUR	%
Liabilities to credit institutions	3,320	1,246	2,074	166.5%
Liabilities to customers	18,956	14,461	4,495	31.1%
Securitized liabilities	5	5	0	0.1%
Total liabilities	**22,282**	**15,712**	**6,570**	**41.8%**

Receivables and liabilities according to geographical source

Breakdown by country in m. EUR 31/12/2018	**Total**	Germany	Italy	Luxembourg	Austria	Spain	Denmark
Receivables from credit institutions	**10,332**	9,597	78	603	23	30	1
Receivables from customers	**6,777**	1,128	1,921	2,579	238	911	-
Liabilities to credit institutions	**3,320**	2,998	184	127	-	11	-
Liabilities to customers	**18,956**	3,545	3,972	9,674	445	1,320	-

Securities

The total securities portfolio is nearly unchanged compared to the previous year.

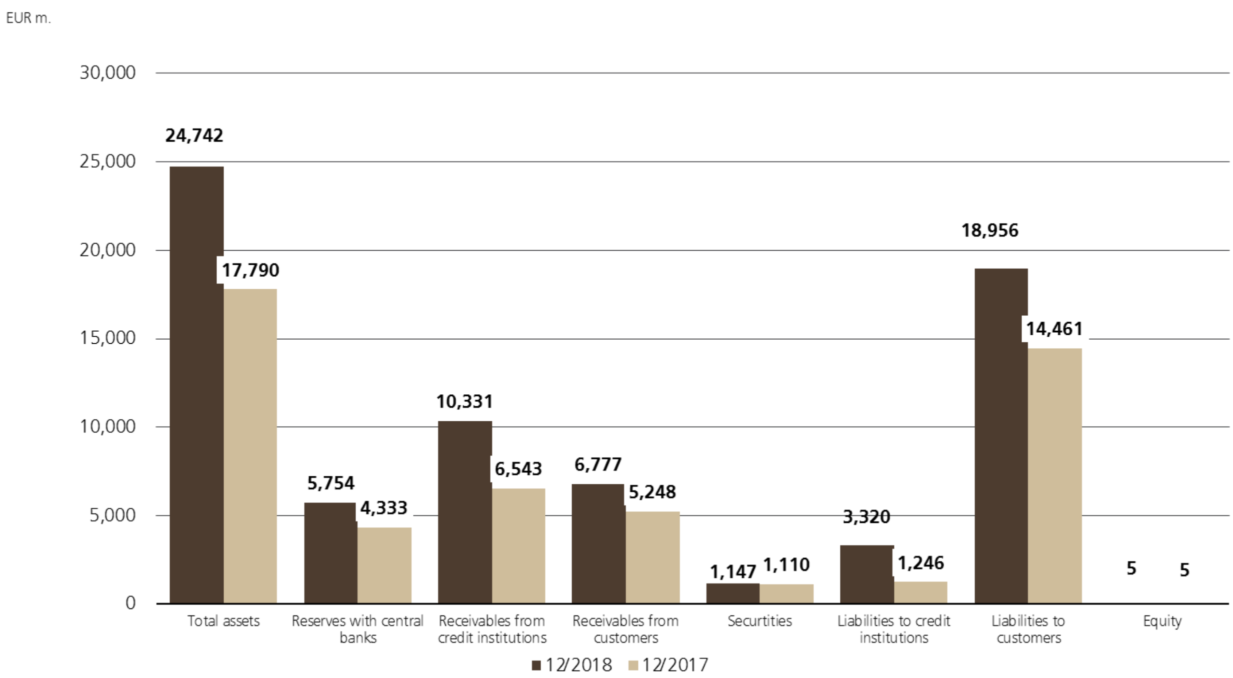
	31/12/2018	31/12/2017	Change	
	m. EUR	m. EUR	m. EUR	%
Money market instruments, bonds and debt securities from public issuers	384	336	48	14.2%
Money market instruments, bonds and debt securities from other issuers	762	773	-11	-1.4%
Debt and other fixed-income securities	**1,146**	**1,109**	**37**	**3.3%**
Shares and other variable-yield securities	**1**	**1**	**0**	**0.0%**
Total securities	**1,147**	**1,110**	**37**	**3.3%**

Equity

The bank's subscribed capital is unchanged at EUR 446,001,000 and is divided into 446,001,000 registered shares. The capital and profit reserves amounted to EUR 536.4 m and EUR 46.4 m, respectively.

The Common Equity Tier 1 (CET 1) ratio according to Article 92 CRR was 22,21 % (prior year: 23.89 %).

Summary of key balance sheet items



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

There was no net obligation as of 31st of December 2018. Therefore provisions were not recognized.

Results of operations

The financial year 2018 resulted in EUR 68.1m after EUR 88.2m in the previous year.

Net interest income totaled approximately EUR 79.3m, burdened by net negative interest amounting to EUR 22.7m. 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 496.7.

Regarding costs, the most significant items were personnel expenses with EUR 301.4m. Other administrative expenses amount to EUR 252.1m. Largest part of the other administrative expenses with 41.2% are intra group charges, particularly for IT and management services.

On the cost side, the bank is working to foster efficiency to recuperate the economic result.

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

in EUR k	**Profit before income taxes**
Denmark	- 1,366
Germany	- 31,852
Netherlands	-
Italy	39,085
Luxembourg	73,567
Austria	8,131
Sweden	- 689
Spain	17,793
Total UBS Europe SE	**104,669**

The result of Germany includes treasury activities for all branches (total p&l EUR – 26.4m) as well as head office costs amounting to EUR 8.7m, which could not be recharged to the other branches.

Liquidity

UBS Europe SE was solvent at all times during the fiscal year. Since 1st of October 2015, the minimum requirements for the Liquidity Coverage Ratio (LCR) have to be fulfilled. According to the Delegated Regulation 2015/61 as of 10th of October 2014 the minimum ratio is 100% for 2018. As of 31st of December 2018, the LCR for UBS Europe SE amounted to 146.7 % (prior year UBS Deutschland AG: 156.9 %).

III. Opportunities and Risk Report

The environment that **Wealth Management business** and the banking sector in general is facing is highly conditioned by the following aspects:

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

Within this context UBS Europe SE sees the following challenges:

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

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

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

With regards to **Investment Bank** activities, while uncertainty over whether the Withdrawal Agreement struck between the EU and the UK government will be approved by Parliament is extreme and the consequences of its rejection numerous and unpredictable expectation remains for an orderly move into transition.

Regulatory environment remains fluid post MiFID II with Brexit and IBOR transition of importance for 2019. As a global business subject to numerous regulatory regimes, monitoring and implementation of new and updated regulation is critical to maintaining globally consistent offering to the clients. UBS Europe SE sets a high value on open communication with home and host regulators.

Digital Investment Bank (innovation and transformation activities): in continuing to deliver excellence to the Investment Bank's clients, UBS has launched a number of business initiatives to transform itself into the bank of the future with data driven and technology enabled solutions. Each area is driving business specific innovation while aligned through the leadership of the Investment Bank Executive Committee.

The bank considers the following opportunities and risks

Investor Clients Services (ICS)

(I) 2019 continues to be affected by the implementation of MiFID II
(II) Non-bank competitors are now present in the market, forcing the banks to become more nimble in developing frameworks to compete due to the lower cost structures that these new entrants have
(III) Continued margin pressure on the traditional profitable businesses
(IV) Direct and attributed cost management impact on EP
(V) Flows into passive investment products continue to detract clients AUM

Investor Client Solutions (CCS)

(I) Differentiation / leadership position: in line with the UBS strategy, banks are focusing on selected business areas where they can aim to get a leadership position or can systematically be in the TOP 3 (e.g. UBS in Equity Capital Markets – ECM)

(II) Market shift from key areas of strength: during 2018, the EMEA fee pool shifted away from the areas of strength which are traditionally ECM, FIG and Southern Europe into M&A, Northern Europe, Industrials, TMT and Consumer and Healthcare. As a number of these areas were being strengthened or re-built during 2018, CCS EMEA was not well positioned to take advantage of the market shift.

(III) Market environment: there is continued volatility in the capital markets space driving risk of deals being pulled due to market conditions and subsequently a reduction in fees

(IV) Clients demanding lending to get access to the CCS business

Despite the current challenging environment for **Asset Management**, it remains an attractive and growing industry. UBS Europe SE sees three key industry trends in particular, which play to UBS AM's strengths:

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

(II) Changing client demand
- Need for truly global offering and solutions across all asset classes
- Low cost beta ('shift to passive') vs high alpha products
- Growth in platform services

(III) Changing industry dynamics
- Rise of Fintechs and new technology entering into financial services sector
- Increased margin and consolidation pressure
- Need for enhanced operational excellence

Risk management and methods

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

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

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

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

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

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

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

Market and competitive risks

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

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

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

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

Counterparty Default Risk

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

UBS Europe SE credit business focused on the traditional securities-backed lombard loan business in Wealth Management throughout fiscal year 2018. In line with the credit risk strategy of UBS Europe SE, the collateralized lombard loan business continued to be the credit activity designed to support relationships with private customers, private investment companies and, to a limited extent with corporate clients. In addition, the bank continued to offer collateralized hedging facilities and short term redemption bridge facilities within the assets servicing business maintained in Luxembourg. This collateralized business relates to the custodian bank function of the bank for regulated funds and is offered as a supplementary offering to support the local asset servicing / custody business.

In the context of the acquisition of Wealth Management activities from Nordea Group in Luxembourg, approx. EUR 1.2 bn asset backed credit risk volume was taken over by UBS Europe SE, Luxembourg Branch and added to the book in October 2018 (thereof approx. EUR 0.8 bn lombard and EUR 0.4 bn mortgages). This inorganic growth was driving component to the credit book development during the year 2018. The monitoring and administration of the acquired lombard risk vintage is already largely performed along UBS standards, whereby identified adjustment requirements are planned to be remediated during the course of 2019 via credit documentation repapering. Regarding the acquired mortgage business, the bank does not plan to grow the acquired the mortgage backed book in Luxembourg but aims at gradually reducing it along contractual maturities beginning in 2019. Where feasible, it is envisaged to refinance maturing mortgages to the extent eligible with other UBS Group subsidiaries e.g. in UK, France, Monaco. Also in this context, respective sub-portfolio review activities regarding the Nordea mortgage portfolio have been initiated. During the course of the initial portfolio integration into UBS Europe SE, no material credit risks were identified requiring respective risk provisioning.

The incumbent mortgage lending to wealth management clients in Italy and Germany did not witness major changes. The latter mortgage business in Germany is still in the process of being phased out, i.e. no new business taken with the loan book being repaid along legacy maturity profile. In Italy, the volume stayed almost unchanged year over year due to a 'passive only' product offering approach coupled with a rather muted risk appetite. The overall mortgage lending activity of UBS Europe SE amounting to approx. EUR 0.6 bn represents approx. 8% of the overall wealth management credit risk is thereby of a limited materiality in regards to overall risk profile for a from a credit risk standpoint.

Other than that, the bank maintains the restricted Corporate & Institutional Clients business in Germany only. This offering focuses on payment products, intra-day overdraft limits and direct debit limits for selected subsidiaries of Swiss Corporate Groups in turn maintaining banking relationships with UBS Switzerland AG. This activity continued to remain immaterial from a credit risk and limit notional amount perspective (less than 0.1% of the overall book).

In terms of volume split, the wealth management related collateralized lombard lending business shows a balanced split across countries with Italy branch embracing 27%, Luxembourg branch 44% (incl. Austria and Nordic clientele), Germany 16 % (incl. Latin America offshore business) and Spain 13%.

In addition to the onboarding of the clients from the Nordea acquisition during the fiscal year 2018, the bank's credit risk control function enhanced its credit monitoring processes by components that permit expanded risk detection along already established valuation and methodology principles. During the fiscal year 2018, no new material risk concentrations, neither on credit relationship level nor on collateral level were identified. That said, no new material loan defaults or loan losses were identified / reported in the context of UBS Europe SE lending business.

Market Risk

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

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

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

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

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

Liquidity Risk

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

The liquidity risk management of UBS Europe SE aims to maintain a sound liquidity position to fulfill all liabilities when are due and to provide adequate time and financial flexibility to be able to respond to company specific liquidity crisis in a generally stressed market environment, without incurring unacceptable losses or risking sustained damage to the various businesses.

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

Operational Risk

Operational risk arises naturally from all areas of UBS Europe SE's activities and is defined as the risk resulting from inadequate or failed internal processes, people and systems, or from external events , including cyber risk.. Events may cause direct financial losses or indirect losses in the form of lost earnings. They may also result in damage to the reputation and to the business activities of UBS Europe SE with long-term financial consequences.

Operational risk incorporates both conduct risk and compliance risk, which are defined as follows:

Conduct risk
The risk that the conduct of the company or its individuals unfairly impacts clients or counterparties undermines the integrity of the financial system or impairs effective competition to the detriment of consumers

Compliance risk
The risk incurred by the bank by not adhering to the applicable laws, rules and regulations and the internal standards.

Together, these definitions provide a complete overview of the impact of operational risks, issues and failures both internally and externally.

UBS Europe SE’s operational risk exposure is systematically monitored, assessed and reported by the Compliance and Operational Risk Control department in line with the holistic operational risk framework, including the approved operational risk appetite, comprehensive control frameworks and key operational risk assessment and reporting processes. During the year the operational risk framework governance has been improved by implementing a clearer assignment of roles and responsibilities and stronger guidelines around the different framework elements.

The framework is managed on enterprise level, considering UBS Europe SE including its branches and subsidiaries, and on individual entity level, if required. UBS Europe SE's governance bodies are fully updated on the operational risk exposure and mitigation actions, in accordance with the approved UBS Risk Governance structure.

During 2018, the operational risk profile, exposure and events root causes have been strongly aligned with the UBS Europe SE's key activities as a Wealth Management services provider. There were no unexpected significant operational risk concentrations. No material operational risk events or relevant appetite breaches have occurred.
In terms of emerging operational risks, UBS Europe SE has implemented additional elements to early identify, assess and manage emerging operational risks, such as for example cyber risk.

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

Outsourcing Risk

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

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

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

The external outsourcing framework and risk are equally subject to ongoing evaluation in light of the MaRisk requirements.

For the efficient outsourcing management UBS Europe SE has set up teams and governance (1^{st} and 2^{nd} line) to ensure early and effective implementation of any new regulatory requirements.

Additionally all staff of UBS Europe SE responsible for contracting were trained to fulfill MaRisk requirements in their daily business.

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

Reputational Risks

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

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

No relevant reputational risks have been identified towards shareholders, staff and general public during 2018. In terms of reputational risk towards regulators, the focus is on maintaining a transparent and reliable working relationship with all relevant regulators.

There have been the following events noteworthy with respect to the interaction with the regulators:

UBS Europe SE, Austria Branch
The Austrian Financial Market Authority (FMA) conducted a standard onsite inspection on AML/KYC: their onsite inspection focused on enhanced requirements deriving from the local transposition of the 4th AML Directive into the Austrian regulatory framework. On 30 August 2018, UBS Europe SE, Austria branch, received the official report issued by the FMA listing five findings falling into the category "suspicion of violation of law/regulatory requirement". All audit findings were resolved promptly and USB Europe SE, Austria branch issued a formal response to the FMA. The final assessment of FMA is expected by mid of 2019.

UBS Europe SE, Luxembourg Branch

On 25 January 2018 UBS Europe SE and Nordea Bank S.A. announced an agreement on the acquisition of Nordea's Luxembourg-based private banking business. The scope of the project comprises the business activities of Nordea Bank S.A. (Luxembourg) covering private domestic banking activities in Luxembourg and through the branch in Singapore. The deficiencies in Nordea Bank (Luxembourg) S.A.'s monitoring and control framework same as in its general lack of appropriate Compliance's culture have been known during the pre-signing phase: they were reflected in reports issued by internal control functions (audit and compliance) and external auditors, including the Luxembourg regulator (CSSF).

To limit the risk exposure for UBS when taking over Nordea's clients, the deal was structured as asset deal (no liabilities deriving for UBS from past failures) and did foresee remediation of at least 75% of the Assets under Management eligible for transfer. The migration took place on 15 October 2018.

Legal risks

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 amounting to approximately EUR 12 m for these cases.

UBS Europe SE is 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

Both the volume of cyber–related attacks and their sophistication have increased substantially in the financial industry and the expectation is that this trend will continue. UBS Europe SE communicates with its industry peers, regulators, Industry intelligence sources and law enforcement to address developments in the threat landscape (scope) and the sophistication of attacks. UBS group has increased the investment in cyber security through the recent years, allocating significant resources for the operation of the bank’s security control infrastructure as well as programs to address the evolving threats. Frequent Management Reporting regarding

Cyber Threat Risk has been established and regular status updates are presented to the Risk Control Committee.

While cyber threats remain a major concern for the entire bank sectors, no impacting events were reported as a result of cyber-attacks to the bank.

The further development of the regulations (for example BAIT, NIS Directive, IT Security Act) as well as ensuring data security and integrity in data collection in the IT systems will be the focus of regulatory regulation in the coming years (or in the future).

UBS Europe SE ties the above together with a formal risk and governance framework that includes multiple levels of internal and external risk assessments as well as processes for tracking and remediating know operational risk.

Furthermore, UBS group is considering cloud computing as a strategy for future solutions and is going to invest in this technology for the forthcoming years.

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 risk.

Risk Position

The bank's own funds pursuant to Article 72 CRR amounted to EUR 1,176 m (prior year: 1,051 m), which corresponds to an overall ratio of 22.21 % (prior year: 23.89 %). The capital requirements according to Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) have been fulfilled at all times during the fiscal year.

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

Risk-weighted assets in EUR m	**31st of December 2018**
Credit risk	3,807
Market risk	59
Operational risk	1,262
Credit value adjustments	167
Total risk-weighted assets	**5,295**

Summarizing presentation of the risk position

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

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

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

The overview below shows the utilization of the individual scenarios for the risk-bearing capacity calculation as of 31st December 2018:

Table Risk mitigation 31/12/2018 in m. EUR	**Capital limits**	**Capital use – Going Concern Basis-scenario**	**Capital use – Going Concern stress scenario**	**Capital use - Gone Concern scenario**
Total capital	-	1,176	1,176	1,176
(./.) capital requirements according to CRR (pillar I)	-	734	734	-
Ytd P&L (HGB)		0	0	0
planned P&L (HGB)	**-**	95	95	-
(./.) hidden losses (HGB)	**-**	2	2	7
Risk cover potential for covering of pillar II risks	-	**535**	**535**	**1,169**
Business-/ Income Risk	200	57	177	204
Operational Risk	150	50	100	217
Counterparty Default Risk	100	58	90	287
Market Risk	40	13	20	20
Funding Risk	20	0	18	18
Pension Risk	20	0	1	68
Total	**530**	**178**	**405**	**813**
Risk-free capital	**-**	**357**	**130**	**356**

IV. Forecast Report

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

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

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

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

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

By hiring additional customer advisors, UBS Europe SE expects to further improve the ratio of front and support staff.

The **Investment Bank** strategy focuses on disciplined growth in the capital-light advisory and execution businesses, while accelerating the digital transformation.

The business comprises the three units Corporate Client Solutions, Investor Client Services and Research and UBS Evidence Lab Innovations. UBS Europe SE is governed by executive, operating, risk and asset and liability committees. Each business unit is organized globally by product and, within that, by region. The Investment Bank provides investment advice, financial solutions and capital market access to corporate, institutional and wealth management clients globally and forms a synergetic partnership with the wealth management business.

Corporate Client Solutions is focused on being

- Trusted lead advisor to each one of the clients
- Go-to bank for innovative solutions and excellence in execution
- Most profitable highest growth investment banking business

In Equities, UBS aims to offer the clients a range of products, innovative solutions, expert advice, access to liquidity and seamless execution as well as continued flow of differentiated content. In Foreign Exchange, Rates and Credit the focus is on delivering returns from recent investments made in talent and technology and expanding the Foreign Exchange and Solutions businesses. UBS Europe SE continues to build out Evidence Lab to focus on data-driven research.

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

Within UBS Europe SE the **Asset Management** division offers investment capabilities and is geared to investment styles across all major traditional and alternative asset classes for institutional clients, wholesale intermediaries and wealth management clients worldwide. UBS Asset Management is one of the leading asset managers in Europe, the largest fund manager in Switzerland, the second-largest fund-of-funds manager for hedge funds and one of the largest real estate fund managers in the world.

Based on this fundament UBS Europe SE is able to turn the challenges of the clients in an increasingly complex and networked world into opportunities and help the clients in Germany to find tailored solutions. Therefore, Asset Management is well positioned to deliver a respective share to the growth objectives of UBS Europe SE.

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

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

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

Frankfurt/Main, 10 May 2019

UBS Europe SE

- The Management Board –

Thomas Rodermann	Birgit Dietl-Benzin	Tobias Vogel
Georgia Paphiti	Dr. Andreas Przewloka	Stefan M. Winter

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

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

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

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

   - Copenhagen, Denmark
   - Milan, Italy
   - Naples, Italy
   - Treviso, Italy
   - Modena, Italy
   - Padua, Italy
   - Turin, Italy
   - Brescia, Italy
   - Florence, Italy
   - Bologna, Italy
   - Rome, Italy
   - Varese, Italy
   - Luxembourg, Luxembourg
   - Vienna, Austria
   - Salzburg, Austria
   - Stockholm, Sweden
   - Madrid, Spain
   - La Coruna, Spain
   - Saragossa, Spain
   - Valencia, Spain
   - Seville, Spain
   - Barcelona, Spain

3. UBS Europe SE offers the following key services:

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

4. UBS Europe SE generated a revenue of EUR 681,622 k. This amount includes the following components:

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

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

Revenue	in EUR k
Denmark	2,394
Germany	210,988
Italy	172,839
Luxembourg	200,911
Austria	24,122
Sweden	1,062
Spain	71,883
Total UBS Europe SE	**684,199**

5. The average number of employees in full-time equivalents was 1,821 in 2018.

Number of employees	
Denmark	9
Germany	573
Italy	462
Luxembourg	482
Austria	57
Sweden	5
Spain	233
Total UBS Europe SE	**1,821**

6. Net profit before taxes on profit and loss amounts to EUR 104,669 k and the taxes on profit and loss were EUR 36,560 k.

in EUR k	Result before taxes on profit and loss	Taxes on profit and loss	**Result after taxes on profit and loss**
Denmark	-1,366	0	**-1,366**
Germany	-31,852	194	**-32,046**
Germany excluding UBS Europe SE Treasury	-5,488	0	**-5,488**
Italy	39,085	14,471	**24,614**
Luxembourg	73,567	20,981	**52,586**
Austria	8,131	1,807	**6,324**
Sweden	-689	0	**-689**
Spain	17,793	-893	**18,686**
Total UBS Europe SE	**104,669**	**36,560**	**68,109**

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

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

8. Return on capital (as the ratio of net profit by total assets) for UBS Europe SE is 0,28%.

English / Englisch

Report of the Supervisory Board for 2018

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 2018 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 Spokesman of the Management Board and the Chair of the Supervisory Board.

In the financial year 2018, the Supervisory Board has had five ordinary and four 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. An independent advisor conducted the annual self-assessment for the Supervisory Board in 2018.

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 2018 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 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 2018

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 2018 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 2018 zu insgesamt fünf ordentlichen und 4 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 4 bestehenden Ausschüssen (Risikoausschuss, Prüfungsausschuss, Nominierungsausschuss und Vergütungskontrollausschuss) gemäß den regulatorischen Vorgaben und der Geschäftsordnung wahrgenommen. Die jährliche Selbsteinschätzung wurde in 2018 durch einen dritten unabhängigen Berater 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 2018 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.

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

Frankfurt, 24 June / Juni 2019

The Supervisory Board / Der Aufsichtsrat

Roland Koch
Chair of the Supervisory Board / Vorsitzender des Aufsichtsrat