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UBS Europe SE

Annual Financial Statements and complementary disclosures as of 31 December 2020

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 2020, and the income statement for the fiscal year from 1 January 2020 to 31 December 2020, 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 2020 to 31 December 2020. 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 2020 and of its financial performance for the fiscal year from 1 January 2020 to 31 December 2020 in compliance with German legally required accounting principles, and

- the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the statement on corporate governance pursuant referred to above.

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Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

Recognition and measurement of provisons for legal risks

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

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

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

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

Auditor's response

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

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

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

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

We inspected a sample of closed legal cases in 2020 in order to investigate the impact on the previous assumptions and therefore also on the calculation of the maximum indemnities.

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

Reference to related disclosures

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

Other information

The supervisory board is responsible for the supervisory board`s annual report. In all other respects, the executive directors are responsible for the other information. The other information comprises the disclosures on the quota for women on executive boards pursuant to Sec. 289f (4) HGB in the management report.

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

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

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

- otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

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

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

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

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

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

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

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

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

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

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

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

Other legal and regulatory requirements

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

We were elected as auditor by the annual general meeting on 30 June 2020. We were engaged by the supervisory board on 10 July 2020. We have been the auditor of UBS Europe SE without interruption since fiscal year 2000.

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We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

In addition to the financial statement audit, we have provided to the Company or entities controlled by it the following services that are not disclosed in the annual financial statements or in the management report:

- The audit of the reporting requirements and the rules of conduct pursuant to Sec. 89 (1) WpHG ("Wertpapierhandelsgesetz": German Securities Trading Act) and Sec. 89 (1) Sentence 2 WpHG as well as of the custody operations within the meaning of Sec. 1 (1) Sentence 2 No. 5 KWG for the reporting period 1 July 2019 to 30 June 2020,

- Execution of agreed upon procedures according to ISRS 4400,

- Review of a reporting package according to ISRE 2410 and IDW PS 900 and

- Audit of the internal control system according to ISAE 3402.

German Public Auditor responsible for the engagement

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

Eschborn/Frankfurt am Main, 11 May 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Table of Content

Balance sheet of UBS Europe SE as at 31 December 2020

Assets *EUR k*		31.12.2020	31.12.2020	31.12.2020	31.12.2019
Cash reserve					
a) Cash on hand			1,046		1,933
b) Balances with central banks			1,675,016		1,293,633
thereof: with Deutsche Bundesbank		*624,757*			*286,166*
				1,676,062	**1,295,566**
Due from banks					
a) payable on demand			3,376,119		13,706,694
b) other amounts due			22,642,324		12,972,049
				26,018,443	**26,678,743**
Due from customers				6,841,270	**9,716,192**
thereof: secured by real estate property lines			*336,225*		*404,753*
Debt securities and other fixed-income securities					
a) Money market securities					
aa) issued by the public sector		1,745,241			569,165
thereof: eligible as collateral with Deutsche Bundesbank	*1,107,701*				*547,172*
ab) issued by other borrowers		521,093	2,266,334		491,744
thereof: eligible as collateral with Deutsche Bundesbank	*370,997*				*234,775*
b) Bonds and debt securities					
ba) issued by the public sector		1,471,988			694,950
thereof: eligible as collateral with Deutsche Bundesbank	*1,471,988*				*694,950*
bb) issued by other borrowers		2,226,989	3,698,977		3,179,151
thereof: eligible as collateral with Deutsche Bundesbank	*2,226,911*				*3,179,067*
				5,965,311	**4,935,011**
Shares and other variable-yield securities				742	**685**
Trading portfolio				5,560,280	**4,271,326**
Equity investments				668	**668**
thereof: in banks			*0*		*0*
thereof: in financial services institutions			*0*		*0*
Shares in affiliates				10,009	**10,009**
thereof: in banks			*0*		*0*
thereof: in financial services institutions			*9,704*		*9,704*
Trust assets				22,049	**37,770**
thereof: trust loans			*0*		*0*
Intangible assets					
b) Purchased franchises, industrial and similar rights and assets and licenses in such rights and assets			763		837
c) Goodwill			100,947		114,919
				101,710	**115,757**
Property and equipment				18,784	**21,076**
Other assets				2,227,102	**2,588,793**
Prepaid expenses				4,592	**4,747**
Total assets				48,447,022	**49,676,341**

Balance sheet of UBS Europe SE as at 31 December 2020

Liabilities *EUR k*	31.12.2020	31.12.2020	31.12.2020	31.12.2019
Liabilities to banks				
a) payable on demand		3,583,000		7,211,340
b) with an agreed term of period of notice		13,515,350		10,761,223
			17,098,350	17,972,563
Liabilities to customers				
Other Liabilities				
ba) payable on demand		20,258,321		19,920,506
bb) with an agreed term of period of notice		217,161		978,677
			20,475,482	20,899,183
Securitized liabilities				
a) Debt securities issued		5,072		5,071
			5,072	5,071
Trading portfolio			2,782,149	2,472,345
Trust liabilities			22,049	37,770
thereof: trust loans		*0*		*0*
Other liabilities			1,430,499	1,886,552
Deferred income			1,327	1,254
Provisions				
a) Provisions for pensions and similar obligations		293,275		269,542
b) Tax provisions		40,352		30,299
c) Other provisions		199,775		141,461
			533,402	441,302
Subordinated liabilities			2,041,527	2,041,832
Fund for general banking risks			0	0
thereof: special reserve pursuant to Sec. 340 e (4) HGB		*0*		*0*
Equity				
a) Subscribed capital		446,001		446,001
b) Capital reserves		2,406,853		2,779,297
c) Revenue reserves				
cd) Other revenue reserves	46,429	46,429		46,429
d) Net retained profits		1,157,882		646,742
			4,057,165	3,918,469
Total liabilities and equity			48,447,022	49,676,341
Contingent liabilities				
b) Guarantees		85,032		83,935
			85,032	83,935
Other obligations				
c) Irrevocable loan commitments		214,597		13,680
			214,597	13,680

Income statement of UBS Europe SE for the financial year 2020

EUR k	2020	2020	2020	2020	2019
Interest income from					
a) Lending and money market transactions		-10,123			136,614
thereof: negative interest income from lending and money market transactions	*187,399*				*154,640*
b) Fixed-income securities and government-inscribed debt		18,814			52,356
			8,691		188,970
Interest expense			-12,852		175,967
thereof: negative interest expense	*164,465*				*142,881*
				21,543	13,002
Current income from					
a) Shares and other variable-yield securities		60,553			72,260
b) Equity investments		15			12
c) Investments in affiliated companies		9,066			9,889
				69,634	82,161
Commission income			1,191,110		999,747
Commission expense			352,463		241,387
				838,647	758,360
Net trading income / expense				-56,150	-16,654
thereof: allocations as defined by Art. 340g (2) HGB			*0*		*4*
Other operating income				197,011	106,595
General administrative expenses					
a) Personnel expenses					
aa) Wages and salaries		373,877			320,883
ab) Social security contributions, pensions and other benefit costs		62,798			49,467
thereof: for pensions	*29,916*				*20,037*
			436,675		370,350
b) Other administrative expenses			439,669		445,907
				876,344	816,257
Amortization, depreciation and write-downs of intangible assets and property and equipment				22,897	21,624
Other operating expenses				46,907	27,368
Write-downs and allowances on demands due and certain securities as well as allocations to provisions for possible loan losses				11,219	2,868
Income from write-up of amounts due and certain securities as well as from the reversal of provisions for possible loan losses				34,144	4,048
Write-downs and allowances on equity investments, shares in affiliates and securities classified as fixed assets				2	0
Income from write-ups on equity investments, shares in affiliates and securities classified as fixed assets				2,296	1,704
Result from ordinary activities				149,756	81,100
Income taxes				38,646	34,337
thereof: deferred taxes			*0*		*0*
Other taxes not disclosed under item 12				-31	22
Net income for the year				111,141	46,742
Profit carryforward from previous years				646,742	0
Withdrawals from the capital reserve				400,000	600,000
Net retained profit				1,157,883	646,742

Notes

Notes

General

The financial statements for the fiscal year 2019 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.

On 26th March 2020, the businesses of UBS Securities France S.A. and UBS Securities España Sociedad de Valores S.A. were transferred to UBS Europe SE by means of a cross-border merger with effective date 1st January 2020. The total assets transferred to UBS Europe SE amount to EUR 36.7 m.

Accounting and valuation principles

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

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

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

Sufficient provision was made for identifiable and general risks in the lending business. A general bad debt allowance was set up in an appropriate amount to account for the general credit risk. In the financial reporting year, the expected loss approach was changed to the concept of "expected loss". The calculation of expected loss for on and off-balance transactions is based on the parameters probability of default (PD), exposure at default (EAD) and loss given default (LGD).

Securities held in the liquidity portfolio are measured at amortized cost according to the strict lower of cost or market principle. They are also included in the valuation of interest rate transactions at present value in accordance with IDW AcP [IDW Stellungnahme zur Rechnungslegung] BFA 3 "Aspects of valuing interest rate transactions of the banking book (interest rate book) at net realizable value".

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

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

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

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

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

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

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

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

Claims and liabilities from repos and reverse repos with central and bilateral counterparties and due on a daily basis are offset and reported on a net basis. Beyond that, an amount of EUR 11.0m with centrals and bilateral counterparties were not offset and reported on a gross basis due to a limited duration.

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

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

Intangible assets, goodwill and property and equipment are recognized at acquisition and production cost and depreciated or amortized on a straight-line basis over their expected useful lives. Interests on borrowings are not capitalized.

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

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

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

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

Deferred taxes are measured using the respective national and company-specific tax rates at the expected realization date. The applicable tax rate for German branches is 31.9% comprising corporate income tax of 15.0% plus 5.5% solidarity surcharge plus an average trade tax rate. Deferred taxes in foreign branches are calculated with the applicable statutory tax rates which are in the range of 19.0% and 31.9%.

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

The pension and similar obligations are calculated in an actuarial report (using the projected unit credit method) applying the 2018 G mortality tables of Dr. Heubeck. They are discounted using the average market interest rate published by Deutsche Bundesbank for the past 10 fiscal years. Freely available reserves were retained for the difference in profit which would have arisen if discounting had been carried out using the average market interest rate for the last 7 fiscal years.

In calculation the settlement value for provisions, all identifiable risks and uncertain liabilities were taken into account in accordance with prudent business judgment.

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

Subordinated liabilities are stated at the settlement value.

Forward and other derivative transactions were used both to hedge the fair value of positions and for trading purposes. Trading portfolio is measured at fair value minus a risk charge. Derivatives of the non-trading portfolio are valued at the prices and interest rates on the balance sheet date. Derivative transactions entered into to hedge the Bank's interest rate risk are included in the valuation of interest rate transactions in the banking book at net realizable value (IDW AcP BFA 3).

Foreign currency receivables and liabilities were valued at the ECB mean exchange rate on the balance sheet date. If the ECB does not publish mean rates, currency positions are valued at market rates. Unsettled spot exchange and forward exchange transactions were valued using the respective mean spot or forward rate on the balance sheet date. The majority of the foreign currency transactions are hedged by concluding matching offsetting transactions in the same currency. Expenses and income from currency translation is recorded in the income statement under "other operating income" or "other operating expenses" respectively.

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

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

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

The principle of prudence enshrined in German commercial law must be applied for all interest rate financial instruments in the banking book by recognizing a provision pursuant to Sec. 340a in conjunction with Sec. 249 (1) Sentence 1 Alt. 2 HGB ("provision for potential losses") for any net obligation from the valuation of the interest component of the entire interest position. As of 31 December 2019, the Bank applied the IDW AcP [IDW Stellungnahme zur Rechnungslegung] BFA 3 "Aspects of valuing interest rate transactions of the banking book (interest rate book) at net realizable value" issued on 16 October 2017 for the valuation of interest rate transactions at net realizable value. The present value of the interest result from these transactions is compared with the administrative and risk cost. As of the balance sheet date, there was no net obligation. No provisions were therefore recognized.

Hedge accounting

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

The critical terms match method is used to measure the effectiveness of the micro hedges on the basis of matching components such as nominal amounts, disbursement value, maturity, interest payment dates and repayment structure in the underlying and the hedging instruments.

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

Notes to the balance sheet

Maturity structure of amounts due from banks and customers

Maturity structure

EUR k	31.12.2020	31.12.2019
Other amounts due to banks	**22,642,324**	**12,972,049**
with a residual term of		
three months or less	21,492,218	11,492,177
more than three months and up to one year	1,015,879	1,256,062
more than one year and up to five years	25,062	79,618
more than five years	109,167	144,192
Amounts due to customers	**6,841,270**	**9,716,192**
with a residual term of		
three months or less	2,394,396	3,984,460
more than three months and up to one year	1,637,360	2,077,122
more than one year and up to five years	297,802	623,930
more than five years	27,602	26,103
with an indefinite term	2,484,110	3,004,577

Amounts due from affiliates

Amounts due from affiliates

EUR k	31.12.2020	31.12.2019
Amounts due from bank	4,616,192	6,759,161
thereof: due from UBS AG	*4,389,939*	*6,550,288*
Amounts due from customers	14,064	11,886

Debt securities and other fixed-income securities

		Listed		Not listed
EUR k	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Debt securities and other fixed-income securities	1,451,838	3,790,242	5,965,311	4,935,011
Shares and other variable-yield securities	0	0	742	683
Total	**1,451,838**	**3,790,242**	**5,966,053**	**4,935,694**

Securities with a book value of EUR 3,666.8m are due in the year 2021.

Securities with a book value of EUR 1,466.2m and a fair value (market value) of EUR 1,465.9m are not valuated according to the lower of cost or market principle, because a long term and significant decline in value is not expected.

Shares and other variable-yield securities

The position includes shares in a real estate fund and variable-yield debt securities.

Trading portfolio

EUR k	31.12.2020	31.12.2019
Trading assets	**5,560,280**	**4,271,326**
Derivative financial instruments	1,941,670	1,318,901
Debt securities and other fixed-income securities	163,671	247,863
Shares and other variable-yield securities	3,458,996	2,706,262
Risk charge	-4,057	-1,700
Trading liabilities	**2,782,149**	**2,472,345**
Derivative financial instruments	2,184,755	1,539,343
Liabilities (from short sales)	597,394	933,002

Equity investments and shares in affiliated

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

Equity investments pursuant to Sec. 285 No. 11 HGB

Company	Capital in EUR	Share of capital	Net income in EUR
UBS Fiduciaria SpA, Mailand*	845,377.00	100,0%	106,135.00
UBS Gestión Sociedad Gestora de Instituciones de Inversión Colectiva SA, Madrid**	10,823,556.81	100,0%	8,793,301.27
UBS Private Equity Komplementär GmbH, Frankfurt am Main*	36,249.04	100,0%	8,899.60

* Financial statements as of 31.12.2019
** preliminary Financial Statement as of 31.12.2020

Trust assets and liabilities

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

The Bank offers its customers the option of investing in private equity fund shares. The Bank concludes trust agreements with the customers to enable them to make small investments. This resulted in equity investments held in trust in the amount of EUR 22.0m and liabilities to customers in the same amount.

Statement of changes in fixed assets

Changes in fixed assets

EUR k	Shares and other variable-yield securities	Equity investments	Shares in affiliates	Goodwill	Other intangible assets	Property and equipment
Book value 01.01.2020	**683**	**668**	**10,009**	**114,919**	**837**	**21,076**
Acquisition or production cost						
Opening balance	5,082	668	10,009	142,515	23,211	108,907
Additions					464	5,459
Disposals					157	10,472
Reclassifications						
Translation differences				579		54
Closing balance	5,082	668	10,009	143,094	23,518	103,948
Cumulative write-downs						
Opening balance	4,399			27,596	22,374	87,831
Additions	3			14,584	541	7,775
Write-ups						
Disposals					160	10,451
Translation differences				-33		9
Reclassifications						
Closing balance	4,402			42,147	22,755	85,164
Book value 31.12.2020	**680**	**668**	**10,009**	**100,947**	**763**	**18,784**

Intangible assets, goodwill and property and equipment

The goodwill stems from the acquisition of ETRA SIM S.p.A. in 2005 and Santander Private Banking Unit (SPB Unit Italia) in June 2016 by the former UBS Italia S.p.A. and was acquired at book value in the merger. The goodwill regarding the acquisition of ETRA SIM S.p.A. and SPB Unit Italia has a remaining useful life of six and four years respectively.

In October 2018 UBS Europe SE completed the takeover of Nordea's Luxembourg-based private banking business. This transaction resulted in the initial recognition of a goodwill amounting to EUR 116.9m In 2019, the goodwill was adjusted by virtue of a subsequent adjustment of the purchase price of EUR 2.6m. The remaining useful life is eight years.

All of the other intangible assets comprise purchased software.

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

Other assets

Other assets mainly include variation/initial margins (EUR 1,921.8m), receivables from the tax office (EUR 83.2m) and receivables from group allocations (EUR 68,5m).

Prepaid expenses

Prepaid expenses contain income from advance payments of non-staff operating costs (EUR 4.2m).

Maturity structure of liabilities to banks and customers

Maturity structure

EUR k	31.12.2020	31.12.2019
Liabilities to banks	**13,515,350**	**10,761,222**
with an agreed term or notice period of		
three months or less	11,318,338	10,588,484
more than three months and up to one year	2,162,779	119,897
more than one year and up to five years	32,999	44,814
more than five years	1,234	8,027
Liabilities to customers	**217,161**	**978,677**
with an agreed term or period of notice of		
three months or less	61,135	704,596
more than three months and up to one year	26,409	54,782
more than one year and up to five years	20,450	75,107
more than five years	109,167	144,192

Liabilities to affiliates

Liabilities to affiliates

EUR k	31.12.2020	31.12.2019
Liabilities to banks	7,737,510	7,796,754
thereof: liabilities to UBS AG	*7,504,008*	*7,437,806*
Liabilities to customers	130,763	129,100

Debt securities issued

All debt securities issued are due in 2020.

Other liabilities

Other liabilities primarily comprise liabilities from variation/initial margins (EUR 1,130.7m), intragroup settlements (EUR 36.7m) and liabilities to the tax office (EUR 40.4m).

Deferred income

Deferred income primarily contains income received in advance in the amount of EUR 1.3m.

Provisions for pensions and similar obligations

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

The following parameters were used to calculate the pension provisions:

Actuarial assumptions

	31.12.2020	31.12.2019
Interest rate	2,30%	2,71%
Salary and income threshold progression	2,25%	2,50%
Pension increases		
for old commitments	1,70%	1,80%
for new commitments	1,00%	1,00%
Average turnover men	13,80%	14,90%
Average turnover women	13,30%	15,30%

* issued before 1 January 1999

In accordance with Sec. 253 (6) HGB, the difference arising between discounting using a 10-year average interest and a 7-year average interest rate has to be calculated as of the reporting date. The 7-year average discount rate with a remaining term of 15 years as published by Deutsche Bundesbank is used to present the comparative amounts for the purpose of calculating this difference. The resulting pension provision and deferred compensation provision amount to EUR 191.4 m and EUR 129.3 m, respectively.

Applying the corresponding 10-year average interest rate with a remaining term of 15 years in the amount of 2.30%, the pension provision and the deferred compensation provision would amount to EUR 174.1 m and EUR 118.2 m, respectively. This leads to a difference for pensions and deferred compensation of EUR 28.4 m, which may not be distributed or transferred.

Other provisons

Other provisions include the following main items:

EUR k	31.12.2020	31.12.2019
Bonuses	97,175	70,194
Legal risks and damages claims	38,763	23,945
Accrual for untaken holidays	10,376	7,407
Restucturing	8,004	7,927
Early retirement obligations	4,195	4,937
Storage costs	3,299	3,421
Fee reimbursement claims from retrocessions	3,813	3,450
Total	**165,624**	**121,280**

Subordinated liabilities

Terms of the subordinated liabilities are as follows:

Currency	Nominal amount	Interest Rate	Due date	Capital
EUR	290,000,000.00	Euribor 3M + 466 BP	indefinite	Additional Tier 1 Capital
EUR	500,000,000.00	Euribor 3M + 105 BP	12 June 2023	MREL eligible
EUR	975,000,000.00	Euribor 3M + 125 BP	27 February 2024	MREL eligible
EUR	275,000,000.00	Euribor 3M + 103 BP	14 May 2029	MREL eligible

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

Interest income for subordinated liabilities was EUR 25.7m. in the financial year 2020.

Subscribed capital and shares

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

Capital and revenue reserves

The capital reserves increased due to the merger with UBS Securities France S.A. and UBS Securities España Sociedad de Valores by EUR 27.6m. Furthermore, an amount of EUR 400.0m was transferred from the capital reserve pursuant to Sec. 272 (2) No. 4 HGB to the net retained profit. Following this, capital reserves amount to EUR 2,406.9m.

Luxembourg tax legislation allows a reduction of the net worth tax liability if a dedicated reserve equal to five times the net worth tax liability is recognized; this reserve must not be distributed within the next five years. The non-distributable reserve is part of the capital reserves recognized in accordance with Sec. 272 (2) No. 1 HGB in the equity of UBS Europe SE; it amounts to EUR 68.6m as of 31 December 2020.

EUR 28.4 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 note on the pension provisions).

Following the Recommendation of the European Central Bank dated 27 March 2020 for dividend payments (ECB/2020/19) extended by the Recommendation dated 27 July 2020 (ECB/2020/35), no dividend payment was made in 2020.

The revenue reserves are unchanged at EUR 46.4m.

Contingent liabilities and other obligations

Contingent liabilities comprise guarantees provided, thereof EUR 0.9m in favour of credit institutions of UBS group. There is no significant call risk.

All other obligations are irrevocable loan commitments.

Repurchase agreements

The book value of assets reported on the balance sheet and sold subject to a repurchase agreement amount to EUR 77.4m.

Foreign currency assets and liabilities

Foreign currency assets totaled EUR 13,775.4m, foreign currency liabilities totaled EUR 14,608.9m and foreign currency position below the line item totaled EUR 219.8m.

Notes to the income statement

Net interest income

Net interest income contains EUR 164.5m in negative interest paid and EUR 188.4m in negative interest received.

Negative interest of EUR 8.1m was paid to Deutsche Bundesbank as a result of intragroup euro clearing, while negative interest in the same amount was collected from the parent company UBS AG.

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

Current income is primarily attributable to the dividend payment of EUR 9.0m received from UBS Gestión Sociedad Gestora de Instituciones de Inversión Colectiva SA, Madrid (Spain).

Furthermore, dividend payments from the trading portfolio of EUR 60.6m are included.

Net commission income

Net commission income

EUR k	31.12.2020	31.12.2019
Custody account management	84,413	81,388
Wealth management	194,982	194,223
Fund brokerage	428,824	279,515
Consulting on equity investments and mergers	105,517	95,377
Income from sales activities (shares, bonds and certificates)	2,070	2,528
Securities settlement	165,388	144,996
Other commissions	-142,547	-39,666
Total	**838,647**	**758,360**

Other operating income

This item primarily contains group allocations (EUR 75.8m), reversals of provision (EUR 5.1m) and income from currency translation (EUR 115.4m).

Other operating expenses

This item mainly includes payments and provision allocations in connection with customer complaints resulting in court proceedings (EUR 27.2m) and expenses of EUR 7.3m from unwinding discounts on provisions as of 31 December 2020 (thereof pension obligations and deferred compensation of EUR 7.1m).

Geographical breakdown of income

Geographical breakdown

EUR k				31.12.2020
	Net interest income	Current income from shares, equity investments and investments in affiliated companies	Net commission income	Other operating income
Germany	-34,181	60,567	658,539	133,074
Luxembourg	21,233	0	163,382	18,083
Italy	12,096	100	165,204	14,014
Spain	6,201	8,966	68,076	10,994
France	0	0	31,428	5,892
Netherlands	0	0	36,684	3,001
Great Britain	0	0	34,794	2,109
Austria	3,342	0	22,944	1,468
Sweden	0	0	9,658	3,768
Switzerland	0	0	0	4,603
Poland	0	0	401	3
Denmark	0	0	0	2
Total UBS Europe SE	**8,691**	**69,634**	**1,191,110**	**197,011**

Net income or net expense from trading book positions relates exclusively to Germany.
Other disclosures for the fiscal year 2020 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 2020 reports a net retained profit of EUR 1,157.9m.

Following the Recommendation of the European Central Bank for dividend payments, the Management Board propose to not perform a dividend payout until the end of the third quarter 2021 and to revisit this decision in an extradordinary shareholder meeting in the fourth quarter 2021.

Other financial obligations

Other financial obligations include rent obligations for the premises used for the Bank's head office and branches. The lease agreement for its head office (the Opernturm building in Frankfurt) expires in 2025. Rent obligations until 2033 for all buildings come to EUR 103.8m, EUR 37.4m of which relates to the Opernturm building (UBS group).

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

Contingent liabilities

There were no further contingent liabilities as of 31 December 2020.

Derivative financial instruments at fair value

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

Derivative financial instruments measured at fair value

EUR k			31.12.2020
		Fair Value	
	Nominal amount	positive	negative
Currency transactions			
Foreign currency forward transactions	305,544	1,390	738
Interest/Currency swaps	38,778,827	1,801,561	1,916,831
Foreign currency options	990,436	20,360	39,322
Other foreign currency transactions	169,543	45,546	127,906
Total	**40,244,349**	**1,868,857**	**2,084,797**
Interest rate transactions			
Forward transactions	586,708	15	0
Interest rate swaps	10,714	2,000	2,000
Total	**597,422**	**2,015**	**2,000**
Equity/Index-related transactions			
Equity/Index options	3,193,418	13	19
Equity/Index swaps	58,562	113	0
Other contracts	18,731	21,056	20,194
Total	**3,270,711**	**21,182**	**20,213**
Other transactions			
Credit derivatives	2,617,523	11,313	27,107
Other contracts	6,198,822	38,303	50,638
Total	**8,816,344**	**49,616**	**77,745**

Hedges

The Bank issued structured financial instruments which are offered in the form of certificates. The Bank also issues plain vanilla products, which it offers its customers as note loans. For the structured products, the repayment value is linked to the performance of the underlying instruments. For the plain vanilla products, the Bank pays a fixed rate of interest. The Bank has concluded offsetting transactions with UBS AG, London Branch, to hedge its repayment and individual payment obligations under the financial instruments it has issued. The Bank uses these offsetting transactions to hedge against its entire market, foreign currency and interest rate risk from all issues. The issue position are grouped together with the offsetting transactions to form hedges. A total volume of EUR 101.1 m (book value) is hedged with these transactions.

Hedge transactions protect agains currency risks with a fair value of EUR 3.7m. In addition, hedges protect agains interest rate risks with a fair value of EUR 111.4m.

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

Derivatives used as hedges for issuing transactions

Derivatives used as hedges for issuing transactions

EUR k			31.12.2020
		Fair Value	
	Nominal amount	positive	negative
Equity/Index swaps	12,217	0	14,102

Derivative financial instruments not measured at fair value

The table below shows the volume of derivative financial instruments of the banking book. Book values of these transactions are shown as other assets (EUR 32.5m) and other liabilities (EUR 37.5m).

Derivative financial instruments not measured at fair value

EUR k			31.12.2020
		Fair Value	
	Nominal amount	positive	negative
Currency transactions			
Foreign currency forward transactions	37,633,351	306,804	306,388
Interest/Currency swaps	48,955,796	187,587	185,765
Foreign currency options	94,422	379	379
Total	**86,683,569**	**494,770**	**492,532**
Equity/Index-related transactions			
Equity/Index-related option	640,798	13,431	13,346
Equity/Index-swaps	523,692	1,128	15,115
Other	3	0	0
Total	**1,164,493**	**14,559**	**28,461**
Other transactions			
Other contracts	1,045,212	5,563	5,491
Total	**1,045,212**	**5,563**	**5,491**

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

Derivatives and forward transactions used in the agency business

Derivatives and forward transactions used in the agency business

EUR k			31.12.2020
		Fair Value	
	nominal amount	positive	negative
Currency transactions			
Foreign currency forward transactions	26,169,109	393,897	394,148
Interest/Currency swaps	198,735,170	5,862,912	5,901,685
Foreign currency options	2	2	2
Total	**224,904,281**	**6,256,811**	**6,295,835**
Interest rate transactions			
Forward transactions	289,769	54	54
Interest options	109,611,925	1,294,096	1,255,307
Interest swaps	294,910	186	186
Total	**110,196,604**	**1,294,335**	**1,255,546**
Equity/Index-related transactions			
Equity/Index options	21,225,964	1,491,824	1,491,575
Equity/Index swaps	3,723,527	74,048	74,048
Other	188,327	18,496	18,496
Total	**25,137,817**	**1,584,368**	**1,584,119**
Other transactions			
Credit derivatives	1,692,441	18,048	18,064
Other	1,393,788	41,802	41,802
Total	**3,086,229**	**59,850**	**59,866**

Auditor's fees

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

Related party disclosure

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

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

The following financial transactions are performed with related parties:

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

All transactions were concluded at arm's length.

Significant events after the balance sheet date

In December 2020, UBS Europe SE announced that it will sell its Wealth Management business in Austria. The closing of the transaction is expected for the third quarter 2021. Furthermore, the UK branch was dissolved as from 1 January 2021.

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

Group affiliation

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

UBS Group AG, Zurich, prepares exempting consolidated financial statements and a Group management report. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These are the consolidated financial statements for the largest group of companies. The consolidated financial statements and the Group management report for 2019 of UBS Group AG, Zurich, are available on the UBS website and are published in German in the Electronic German Federal Gazette ["Elektronischer Bundesanzeiger"] by UBS 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 IFRS. These are the consolidated financial statements for the smallest group of companies. The consolidated financial statements of UBS AG, Zurich, are available on the UBS website.

Disclosure

The disclosure report for the year ended 31 December 2020 is published on the UBS Europe SE website at *ubs.com/de/en/ubs-germany/financial-reports.html*.

Governing bodies

Supervisory Board

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

Miriam Gonzalez-Durantez
Deputy chair,
Of-Counsel, Washington DC, United States of America

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

Dr. Sabine Keller-Busse
Group Chief Operating Officer, UBS AG, Zurich, Switzerland

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

Jonathan (Bobby) Magee
Consultant, Guildford, United Kingdom

Beatriz Martin Jimenez
Investment Banking Chief Operating Officer, UBS AG, London Branch

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

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

*Employee representatives

In accordance with the resolution of the Extraordinary General Meeting dated 21 February 2019, remuneration totaling EUR 213k was paid in 2020 for the fiscal year 2019 to the employee representatives on the Supervisory Board. Remuneration totaling EUR 660k was paid to the independent members of the Supervisory Board.

Management Board

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

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

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

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

Heinrich Baer (since 1 July 2020)
Head Global Wealth Management Luxembourg, Nordics & Austria and Asset Management, UBS Europe SE, Frankfurt, Germany

Pierre Philippe Chavenon (since 1 July 2020)
Chief Risk Officer, UBS Europe SE, Frankfurt, Germany

Birgit Dietl-Benzin (until 30 April 2020)
Chief Risk Officer, UBS Europe SE, Frankfurt, Germany

Remuneration for the members of the Management Board amounted to EUR 10.5 m in the fiscal year. The amount includes the basic salary, variable remuneration and other remuneration for the period during which they were a member of the Management Board.

EUR 4.0m 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 47.2 m on 31 December 2020.

Employees

The average number of employees during 2020 was 2,006, thereof 795 female and 1,211 male employees.

As of 31 December 2020, the headcount was 2,079 and 30 employees were on parental leave.

Employees

	31.12.2020	31.12.2019
… by locations		
Germany	680	642
Italy	485	482
Luxembourg	458	463
Spain	252	224
Austria	65	66
Netherlands	31	29
Sweden	25	26
France	73	21
Denmark	5	7
Poland	3	3
Switzerland	2	2

Employees

	31.12.2020	31.12.2019
… by business division		
Global Wealth Management	950	975
Investment Bank	224	151
Asset Management	35	36
Operating office	347	336
Other	523	467

Frankfurt / Main, 23 April 2021

UBS Europe SE
Management Board

Christine Novakovic

Dr. Andreas Przewloka

Heinrich Baer

Pierre Chavenon

Georgia Paphiti

Tobias Vogel

Management Report

Business Report

Divisions and organization

UBS Europe SE, based in Frankfurt am Main, was created in 2016 by merging several European wealth management subsidiaries of UBS Group into a pan-European entity, which is now one of the leading financial services providers for wealth management in Europe.

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

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

UBS Europe SE encompasses eleven branches (Italy, Spain, Luxembourg, Sweden, Denmark, Austria, Netherlands, Switzerland, Poland, France, UK), with 26 locations across Europe, as well as six offices in Germany - including UBS Europe SE's headquarters in Frankfurt am Main. In March 2020, the businesses of UBS Securities France S.A. and UBS Securities España Sociedad de Valores S.A. were transferred to UBS Europe SE by means of a cross-border merger. As a result of Brexit, UBS Europe SE dissolved its former UK Branch with effect from 1 January 2021. Further, in December 2020 it was announced that UBS Europe SE will sell its wealth management business in Austria to LGT. The agreement with LGT includes the transition of employees as well as all client relationships, products, and services – the transaction is expected to conclude by the third quarter of 2021.

Global Wealth Management

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

UBS Europe SE is committed to provide its clients with superior financial advice and a broad range of solutions. UBS Manage is the mandated discretionary portfolio management solution: clients delegate investment decisions and portfolio management to UBS based on an agreed investment strategy. UBS Advice is the mandated advisory solution: client advisors agree with clients on investment objectives and strategy, regularly monitor portfolio positions against them, and notify clients in case deviations are found while recommending specific solutions to bring portfolios back in line. UBS Transact is the mandated solution for clients looking for access to financial markets, brokerage and custody services, as well as generic research.

UBS Europe SE also offers Wealth Planning services that give access to a wide range of solutions to meet the clients' needs related to liquidity, longevity, and legacy planning, while ensuring that their financial and lifestyle goals can be achieved. To address clients' lending needs, UBS Europe SE offers Lombard loans, overdrafts, guarantees and mortgages. The offering varies from country to country. In some countries Global Wealth Management specialists, collaborating with the Investment Bank, service clients (mainly entrepreneurs owning small and mid-size companies) in corporate advisory matters.

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

Investment Bank

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

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

The Investment Bank has a global reach, with a group-wide presence in 33 countries and principal offices in the major financial hubs. This is critical given the cross-border nature of the Investment Bank clients who demand a global offering. Competing firms are active in many of the Investment Bank's markets, but the Investment Bank's strategy differentiates with its focus on leadership in the selected areas where the division has chosen to compete, and a business model that leverages talent and technology rather.

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

Asset Management

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

Strategy

UBS Europe SE's strategy is centered on its leading Global Wealth Management and Investment Bank business divisions. These divisions have a strong competitive position in their targeted markets, are capital efficient, and have an attractive long-term structural growth and profitability outlook. The firm's business divisions are competitive in the fields that matter most to its clients, but they would not be as successful on a stand-alone basis. Therefore, a key priority is further embedding a "one-firm approach" across UBS Europe SE: while the firm has successfully delivered its integrated business model for the benefit of many clients and shareholders, some approaches are still open. This includes improving efficiency and productivity in 2020, keeping operating costs flat, while growing revenues and funding to meet regulatory requirements and improve efficiency. Continued investments in technology, platforms and risk management systems are crucial for growing UBS Europe SE's franchise, generating attractive returns in the future and improving client experience.

The firm aims to drive higher and superior returns by growing each of its businesses and leveraging its own business portfolio and geographic footprint in Europe. A number of priorities were defined in order to help to achieve this in 2020–2022.

UBS Europe SE's wealth management business benefits from significant scale owing to its leading position across the attractive High Net Worth and Ultra-High Net Worth / Group Family Office client segments, in an industry with attractive growth prospects and increasingly high barriers to entry. The partnership between Global Wealth Management and other business divisions is a key differentiating factor for the firm and a source of competitive advantage. In Global Wealth Management, the firm will execute on several initiatives designed to accelerate its growth and elevate the quality and value of the service delivered to clients.

On the Investment Bank side, UBS Europe SE is committed to deliver an excellent performance, with Institutional Clients, Wealth Management clients and Corporates driving ability to add value across the Group. The strategy is based on disciplined growth in capital-light Advisory & Execution businesses, which require only limited incremental resources to grow, and accelerating digital transformation. The Investment Bank is well positioned to respond to changing market conditions and client needs and to better leverage its capabilities, including the technology investments made over the years.

The Asset Management business will continue to build on its differentiated client offering for further growth, performance and scale.

For the UBS Europe SE 3-Year Strategic Plan 2020-2022, key levers have been defined to drive profitability in the following areas:

Global Wealth Management

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

Key levers:

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

Investment Bank

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

Key levers:

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

Balance sheet and capital optimization

A series of financial resource optimization measures have already been completed since the inception of UBS Europe SE and the conclusion of the Brexit cross-border merger that took place in March 2019. However, further optimizations are required during 2021, which are currently on hold due to the ongoing COVID-19 pandemic.

Key levers:
- The long term goal is to bring return on CET1 up to 8% over the next five years by targeted measures, including capital reductions and optimization of the capital structure
- Drive further large exposure and Risk Weighted Assets optimizations as well as further work on the Global Wealth Management deposit optimization initivative

Innovation and technology

The aim is to drive improvements in firm-wide efficiency to fund growth and enhance returns. The firm believes that continued optimization of processes, platforms, organisation and capital resources will help to achieve this. UBS Europe SE will continue to invest in technology with the goal of improving efficiency and effectiveness, driving growth and better serving its clients.
Key levers:
- Expand the Wealth Management Platform as a means to homogenize platform setup
- Implement new digital capabilities and reduce operational complexity
- Explore new digital opportunities to meet new generation clients' needs

Collaboration

UBS Europe SE wants to deliver more as one firm to its clients. The collaboration between business divisions is critical to the success of the firm’s strategy and is a source of competitive advantage. This collaboration also provides further revenue growth potential and enables the firm to better meet client needs; for example, in the Ultra-High Net Worth and Global Family Office space. Another area where collaboration between business divisions can bring more value to clients is in sustainable finance. As the largest truly global wealth manager, the firm has a responsibility to take a leading role in shaping a positive future, and its goal is to be the financial provider of choice for clients who wish to mobilize capital toward the achievement of specific environmental or social outcomes. UBS Europe SE is shaping the landscape of sustainable finance by using thought leadership, innovation and partnerships to support clients in their sustainability efforts.
Key levers:
- Increase revenue pools for all divisions through collaboration by moving from an opportunistic coverage model to a more structured approach
- Build bridges to better understanding products, client needs as well as cultural differences
- Exploit positive network effects

External growth and partnerships

UBS Europe SE intends to grow using the advantages of external partnerships and evaluate selected new opportunities
Key levers:
- Further transform and grow business through potential M&A and partnerships

Management systems

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

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

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

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

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

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

Economic report

Financial performance indicators

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

The following performance indicators were reviewed during the current financial year to reflect the new business due to the cross-border merger with UBS Limited, London. The following financial performance indicators are reported:

Cost-Income-Ratio

The financial year 2020 resulted in EUR 1,095.9m revenues compared to EUR 946.3m in the previous year. Thus, the predicted slight increase in revenues was exceeded. Costs increased to EUR 946.1m compared to EUR 865.2m in the previous year. This results in a cost/income ratio based on HGB figures of 86% (prior year 91%). The revenues exceeding last year's forecast led to an improved cost/income ratio while a constant cost/income ratio was predicted.

The budget for the current financial year is based on IFRS figures and stipulated a cost/income ratio of 88%. Cost/Income ratio according to IFRS is 83%. Thus, the target was also exceeded.

Profit before tax

The profit before tax according to IFRS is reported as financial performance indicator. For the financial year 2020 the profit before tax results to EUR 176m which is 38% above the plan of EUR 127m.

The bank discloses the profit before tax per division and per location in the internal management information system: most of the branches are above plan (UK EUR + 36m, Netherlands EUR + 25m, Luxemburg EUR + 16m, Sweden EUR + 7m and Spain EUR +2m).

Global Wealth Management and Investment Bank as divisions are slightly below plan (-4% each), which Asset Management increased the profit before tax by 39%.

Return on Equity

The Return in Equity (RoE) as well as Return on CET1 (RoCET1) were defined as new financial performance indicators.

The Return on Equity (RoE) is calculated as ratio between profit before tax and equity and results to 4% for the financial year 2020 which is above the plan of 2%. The Return on CET1 (RoCET1) is 5% and also above the plan of 2%.

Invested Assets

Invested assets increased by EUR 5.1bn to EUR 149.5bn in the financial year, corresponding to an increase of 4% compared to the previous year being at the high end of the range of the predicted increase between 2 and 4%.

Non-financial performance indicators

The performance of UBS Europe SE cannot be measured using financial indicators alone. To provide a more holistic view on our performance and on the sustainability of our results, the following section on non-financial performance indicators is provided.

Our three keys to success are the foundation of our strategy and culture. They define how we work together and what we stand for as a firm and individuals; they drive our business strategy. We are committed to being a place where our employees can unlock their full potential. Our ability to meet clients' needs, solve complex problems and develop innovative and sustainable solutions depends on the smart, talented, knowledgeable and engaged people who partner across UBS. Our employees are highly diverse in terms of experience, background, skills and interests. Our shared success is built on a cultural foundation emphasizing collaboration, inclusion, innovation and constant improvement.

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

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

Pursuant to Article 76 (4) und Article 111 (4) AktG ["Aktiengesetz": German Stock Corporation Akt] in conjunction with the FührposGleichberG ["Gesetz für die gleichberechtigte Teilhabe von Frauen und Männern an Führungspositionen in der Privatwirtschaft und im öffentlichen Dienst": German Act on the Equal Participation of Women and Men in Management Positions] targets for the ratio of female employees on the Supervisory Board, the Management Board and the two management levels below the Management Board have been defined.

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

Furthermore, the existing target of 27% of women in the first management level below Management Board and 20% for the second management level was maintained. The target for the first management level was not reached, with only 18%, the target for the second management level was exceeded with 29%.

As of 31 December 2020, the ratio of women to men in the UBS Europe SE Supervisory Board was 4:5, exceeding the minimum female representation threshold of 30% for Supervisory Boards (UBS Europe SE is at 44%). The female representation in the Management Board changed from 3:2 to 2:4 during 2020, thus decreasing to 33% at the end of 2020.

Overall, the level of staff turnover at UBS Europe SE in 2020 was 7.5%. In Germany, the largest location, staff turnover was 7.1%. The average length of service of permanent employees is approximately 11 years.

Non-financial report

UBS AG has issued a seperate non-financial group report and published it in accordance with Article 114 WpHG ["Wertpapierhandelsgesetz": Securities Trading Act]. The report contains a consolidated Global Reporting Initiative (GRI) document, providing comprehensive disclosures on environmental, social and governance (ESG) factors and including the disclosures on non-financial information required by German law implementing the EU directive 2014/95 (CSR-Richlinie-Umsetzungsgesetz / CSR-RUG). The GRI document is available in English under "Annual reporting" at www.ubs.com/global/en/investor-relations. 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

2020 featured unprecedented shutdowns of economic activity, a fusion of monetary and fiscal policymaking, and a vote for a new leadership in the US.

World GDP shrank by 3.4% in 2020 after growing by 2.9% in 2019, reflecting a sharp decline in economic activity in the first half of the year attributed to the COVID-19 outbreak. The baseline envisages a recovery in global economic activity and growth of more than 5% in 2021. This growth relies on continued policy support from governments and central banks, and assumes the lifting of pandemic-related restrictions from late spring or early summer.

The US economy contracts by around 3.5% in 2020 characterized by a sharp decline in the first half of 2020 and rebound in the second half of 2020 driven by an increase in goods output and spending. Thereafter, GDP is expected to grow by around 6% in 2021, helped by the continued re-absorption of unemployed and an accommodative monetary policy stance. CPI inflation is set to slow due to the economic downturn to 1.9% in 2020. In the following years, a gradual return towards the 2% mark is to be expected.

In the Eurozone, the acute economic decline in the first half of 2020 leads to a GDP contraction of 6.8% in 2020 after growing by 1.3% in 2019. Although GDP increases by around 5% is expected in 2021, a return to pre-crisis levels is not expected until at least 2022, with rising bankruptcies and high unemployment contributing to a weak recovery. VAT cuts in Germany and delayed summer sales contribute to a decline in CPI inflation across the Eurozone to 0.3%. For 2021 a CPI inflation of around 2% is expected.

In the UK, the slower reopening of the economy weighs heavily on GDP in 2020, which falls by 9.9%.

At the onset of the COVID-19 pandemic, all major central banks lowered policy interest rates to the effective lower bound and initiated unprecedented amounts of asset purchases. This has suppressed yields on safe bonds to record-low levels. The key interest rate of the European Central Bank was -0.5% at year end.

Following a substantial decline in spring, the equity prices recovered until year end partially reaching highs. The MSCI All Country World Index rose 14.3%, the S&P 500 was up 16.3% and DAX rose 2.5% in 2020. In contrast, Euro Stoxx 50 fell by 5.1%.

The yield on 10-year US Treasury bonds was 0.9% while the yield on the 10-year German Bund was negative with -0.6%. It is expected that the positive trend will continue with equity markets rising further.

Interest rate expectations in the US have remained low since the start of the year, due to the large-scale policy response initiated by the Fed. Long-term interest rate expectations in the Eurozone and Switzerland have decreased slightly and 10-year swap rates are expected to stay in negative territory for at least the next three years in both regions.

House price growth for 2020 has been revised up as low mortgage rates and buy-to-let demand continue to drive prices higher.

In summary, the approval and rollout of COVID-19 vaccines and fiscal policymaking are expected to enable corporate earnings in most regions to recover to pre-pandemic levels by the end of 2021. Low interest rates and high government spending will probably persist as policymakers attempt to mitigate the economic effects of the pandemic control measures.

Business in 2020

2020 has been an overall very good year for UBS Europe SE. The firm showed resilience to the ongoing crisis, demonstrating that the business mix and the business model are strong and the firm can generate considerable returns even in times of stress.

Financial result of UBS Europe SE for the year 2020

On IFRS basis, UBS Europe SE recorded a profit before tax for 2020 of EUR 176m, exceeding the plan for the year (EUR 127m) by EUR 49m or 38%, despite a number of extraordinary items which were absorbed as part of the usual course of business. Excluding these extraordinary items, adjusted profit before tax stands at EUR 248m.

- Profit before tax for Global Wealth Management was EUR 99m being EUR16m or 19% above the plan for the year (EUR 83m)
- Profit before tax for Investment Bank was EUR 86m which is -11m or 11% below the plan for the year (EUR 97m)
- Profit before tax for Asset Management was EUR 50m being 32m or 168% above the plan for the year (EUR 19m)
- Group Functions reported a loss before tax of EUR 58m which is 14m or 19% lower than the plan for the year (EUR 72m).

Overall the macroeconomic situation in the first half of 2020 was beneficial for UBS Europe SE as the entity recorded increased transactional revenues on the back of elevated client activity and market volatility. This is especially relevant for Global Wealth Management and the Investment Bank Global Markets. At the same time, recurring fees reduced as Invested Assets valuation dropped by 8% in March 2020 when compared to December 2019 and the Investment Bank Global Banking activity was very low. In the second half of 2020, Global Wealth Management transactional revenues slowed down as well as net interest income due to the lower interest rate environment. Invested Assets valuation picked up to the pre-COVID-19 levels by June 2020, which allowed for recurring fees to increase as well. Global Markets revenues reduced as clients remained on the sidelines in summer and until the US elections in early November. Nevertheless, Global Banking revenues picked up significantly which allowed the Investment Bank to remain at the planned revenue run rate, although during the fourth quarter of 2020, the business was impacted by one-off items that resulted in overall lower revenues for the year compared to plan. For Asset Management the increased profit before tax is mainly coming from performance fees of EUR ~20m recorded in the Netherlands in December 2020. USB Europe SE also benefitted from higher treasury revenues compared to the initial 2020 plan.

Financial position

Net assets

The bank's net assets are in order. The balance sheet total increased to EUR 48.4bn for the current year (prior year: EUR 49.7bn).

Key items were receivables from credit institutions (54% of total assets) and customer receivables (14%). Further items affecting net assets are described below.

Cash reserve

As of the balance sheet date 2020, the credit balance with central banks was EUR 1.7bn (prior year: EUR 1.3bn), thereof EUR 0.6bn (prior year: EUR 0.3bn) with Deutsche Bundesbank.

Receivables from credit institutions and customers

Total receivables from banks decreased by EUR 0.7bn compared to the previous year. The deposit facility with Deutsche Bundesbank increased by EUR 3.6bn while receivables from repurchase agreements decreased by EUR 3.3bn. Receivables from customers decreased by EUR 2.9bn, thereof EUR 1.7bn receivables from repurchase agreements.

	31.12.2020	31.12.2019	Change	
	EUR m	*EUR m*	*EUR m*	%
Receivables from credit institutions	26,018	26,679	-660	-2.5%
Receivables from customers	6,841	9,716	-2,875	-29.6%
Total receivables	**32,860**	**36,395**	**-3,535**	**-9.7%**

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

Breakdown by country

EUR m	Receivables from credit institutions	Receivables from customers	Liabilities to credit institutions	Liabilities to customers
Germany	25,279	2,946	16,967	5,270
Luxembourg	643	1,512	58	11,018
Italy	22	1,291	61	3,023
Spain	14	824	1	786
Austria	29	269	0	379
Great Britain	3	0	11	0
Sweden	3	0	0	0
Netherlands	6	0	0	0
France	17	0	0	0
Poland	1	0	0	0
Denmark	0	0	0	0
Switzerland	1	0	0	0
Total	**26,018**	**6,841**	**17,098**	**20,475**

Trading assets

Trading assets include shares and other variable yield securities amounting to EUR 3.5bn and positive replacement values from derivatives amounting to EUR 1.9bn.

Securities

Debt securities and other fixed-income securities increased by EUR 1.0bn. The shares and other variable securities portfolio is nearly unchanged compared to the previous year.

	31.12.2020	31.12.2019	Change	
	EUR m	*EUR m*	*EUR m*	%
Money market instruments, bonds and debt securities from public issuers	3,217	1,264	1,953	154.5%
Money market instruments, bonds and debt securities from other issuers	2,748	3,671	-923	-25.1%
Debt and other fixed-income securities	**5,965**	**4,935**	**1,030**	**20.9%**
Shares and other variable-yield securities	**1**	**1**	**0**	**0.0%**
Total securities	**5,966**	**4,936**	**1,030**	**20.9%**

Liabilities to credit institutions and customers

Total liabilities decreased by EUR 1.3bn compared to the prior year value. The intercompany liabilities decreased slightly by EUR 0.1bn.

	31.12.2020	31.12.2019	Change	
	EUR m	*EUR m*	*EUR m*	%
Liabilities to credit institutions	17,098	17,973	-874	-4.9%
Liabilities to customers	20,475	20,899	-424	-2.0%
Securitized liabilities	5	5	0	0.0%
Total liabilities	**37,579**	**38,877**	**-1,298**	**-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 reserves increased due to the cross-border merger with UBS Securities France S.A. and UBS Securities España Sociedad de Valores S.A. by EUR 27.6m. Furthermore, an amount of EUR 400m was transferred from the capital reserves to the net profit, thus capital reserves amount to EUR 2,406.9m as of 31 December 2020. Profit reserves remained unchanged amounting to EUR 46.4m.

The Common Equity Tier 1 (CET 1) ratio according to Article 92 CRR was 28.1% (prior year: 24.9%).

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

There was no obligation as of 31 December 2020. Therefore provisions were not recognized.

Result of operations

The financial year 2020 resulted in a net profit of EUR 111.1m after EUR 46.7 m in the previous year.

Net interest income totaled EUR 21.5m, burdened by net negative interest amounting to EUR 23.9m. 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 838.6m. Net trading income was negative with EUR 56.2m.

Regarding costs, the most significant items were personnel expenses with EUR 436.7m. Other administrative expenses amount to EUR 439.7m. Largest part of the other administrative expenses with 63.1% are intragroup charges, particularly for IT and management services.

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

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

EUR k	**2020**
Denmark	86
Germany	30,603
France	-2,204
Italy	19,340
Luxembourg	30,993
Great Britain	-14,103
Netherlands	76,421
Austria	6,641
Poland	-179
Sweden	5,041
Switzerland	487
Spain	-3,339
Total UBS Europe SE	**149,786**

The result of Germany includes treasury activities for all branches (total p&l EUR -22.6m).

Liquidity

UBS Europe SE was solvent at all times during the fiscal year. Since 1 October 2015, the minimum requirements for the Liquidity Coverage Ratio (LCR) have to be fulfilled. According to the Delegated Regulation 2015/61 as of 10 October 2014 the miminum ratio is 100% for 2018. As of 31 December 2020, the LCR for UBS Europe SE amounted to 173.4% (prior year: 139.9%).

Opportunities and risk report

Global Wealth Management

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

Changing behaviors and client needs

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

- Clients demand a more active relationship with their trusted advisor, while performance is the major driving force for client satisfaction
- Given less predictable markets, UBS Europe SE can no longer assume that they will positively contribute to producing investment performance. This may trigger increased client appetite for non-financial investments given their lower yields as compared to other investment alternatives such as real estate
- Relying on product performance alone will no longer suffice to consistently achieve the financial returns clients expect
- Client expectations with regards to personal privacy and transparency on products and services will become even more important
- The COVID-19 pandemic forced a much faster spread of digital technologies (see section growing demand for digitalization) and challenged established norms. This may transform certain economic sectors and proliferate productivity in connection with clearly noticeable impact of the fourth industrial revolution.

Change in the demographic pattern

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

Growing demand for digitalization

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

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

Increased regulatory requirements

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

Material increase of transparency requirements

- Tax regularization is completed across all markets, with two consequences: the continuous repatriation of offshore assets to domestic markets or, in some cases, the need to provide advice from the local markets while assets are being booked abroad ("proximity")
- MiFID II's huge transparency requirements show a great opportunity for those entities advanced in its implementation and with sufficient financial and solvency capacity as to make the necessary investments

Uncertain political environment with moderate economic growth and low interest rates

Politics have played a huge role in financial markets in recent years and it will be no different in the future. Brexit, various election results around the globe and statistics show how the political "center ground" is not fixed. To cope with this political uncertainty, investors are best served by diversifying across countries and regions, to avoid overexposure to the experimental policies of individual regimes. Monetary normalization and rising interest rates around the world constitute the base scenario for UBS Europe SE.

Investment Bank

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

Economic and political landscape

The economic outlook for Europe remains challenging for the foreseeable future due to persistent low growth, low inflation/deflation, and near-zero or negative interest rates. Further, there is uncertainty over the duration and severity of

COVID-19 restrictions. These factors combined are weighing heavily on European market sentiment. After extremely high levels of capital markets (ECM, DCM) fee pool activity in 2020 due to COVID-19, UBS Europe SE expects to revert to historical levels in 2021. M&A activity is expected to increase on the back of transactions postponed due to COVID-19.

Regulatory landscape

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

Digitalization and innovation

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

Environmental and social risk

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

Asset Management

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

Changing investment environment

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

Changing client demand

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

Changing industry dynamics

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

COVID-19

In 2020, UBS Europe SE has been exposed to a situation where the standard business continuity strategy with fixed backup desks has not been suitable to mitigate the COVID-19 risks as these concepts would implicate an aggregation of staff and requirements for crossing borders travelling to other locations. Therefore, UBS Europe SE adjusted its standard business continuity strategy and invoked 'Split Operations' by March 16th 2020 to ensure business continuity. For avoiding close contact of many employees all teams have been split in three groups: approximately 80% of the employees are working from home and 20% are present in UBS offices working at two independent areas without physical interaction. By December 16th 2020, UBS Europe SE invoked stricter pandemic measures in many countries including even lower office presence of under 10%. Social Distancing is a key element of the UBS protection measures and UBS Europe SE is fully compliant with the 17 workplace standards published in many countries, e.g. in Germany on April 16th 2020.

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

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

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

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

Risk management and methods

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

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

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

A quantitative comparison of material risks and own funds on enterprise level is being conducted as part of the bank's ICAAP (Internal Capital Adequacy Assessment Process), which encompasses a normative as well as an economic view following a going concern assumption. The review of the adequate liquidity is done using ILAAP (Internal Liquidity Adequacy Assessment Process - see section liquidity and funding risk).

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

Market and competitive risk

Due to its multinational and multicultural nature, the banking business in Europe is highly heterogeneous. Given this fragmentation of the market, regional players have emerged in the various European nations and became well established in the financial services market of their selected region.

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

For the Investment Bank, UBS Europe SE's main competitors are the major global investment banks, including Morgan Stanley, Credit Suisse and Goldman Sachs, as well as corporate investment banks, including Bank of America, Barclays, Citigroup, BNP Paribas, Deutsche Bank and JPMorgan Chase. The firm also competes with boutique investment banks and FinTech firms in certain regions and with regard to certain products.

In Asset Management, UBS Europe SE's main competitors are global firms with wide-ranging capabilities and distribution channels, such as Amundi, BlackRock, DWS, Goldman Sachs Asset Management, Invesco, JPMorgan Asset Management, Morgan Stanley Investment Management and Schroders, as well as firms with a specific market or asset class focus.

The competitive environment is also evolving. In addition to traditional competitors in the asset-gathering businesses, new entrants are targeting selected components of the value chain. However, the firm has not yet seen a fundamental unbundling of the value chain and client relationships, which might ultimately result in the disintermediation of banks by new competitors. Over the longer term, UBS Europe SE believes the entry into the financial services industry of large platform companies could pose a significant competitive threat, given their strong client franchises and access to client data. Moreover, FinTech firms are gaining momentum; however, they have not materially disrupted the firm's asset-gathering businesses to date. UBS Europe SE sees a trend in forging partnerships between new entrants and incumbent banks, with the latter acquiring technology from FinTech firms, thus gaining an edge over competitors in terms of technology, cost efficiency, and service quality.

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.

Counterparty default risk

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

Wealth Management Business

During 2020, UBS ESE continued to focus on traditional securities backed lending to Wealth Management clients across its branch network, as well as Asset Servicing clients out of UBS ESE Luxembourg. Credit risk is offered in the form of Lombard loans, used for overdrafts, fixed advances and to provide margin for derivative trading, and to a limited extent mortgage loans. Wealth Management business encompasses loans to private clients, private investments companies, institutional and private label funds and to a limited extent operating companies, where all facilities are collateralized by assets.

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

The quality of the credit portfolio remains strong at the end of 2020. With the pandemic, UBS Europe SE experienced some reduction in the Lombard loan book, with some deleveraging across the Wealth Management portfolio. Over 90% of the Lombard book exposure is supported with liquid and diverse collateral portfolios rated very highly internally. The legislative moratoria, introduced by governments as a result of the pandemic have had a negligible impact on the Wealth Management book with only a small number of mortgage customers requesting payment relief.

Non-performing loans remain low although there was some deterioration in the mortgage portfolio in Luxembourg, acquired in an asset purchase agreement from Nordea in 2018.

Investment Bank

UBS ESE provides services to clients in the European Union for derivative products and lending. Counterparty Default risk arises from traditional banking products such as loans, loan commitments and guarantees and from traded products, including over-the-counter (OTC) derivative transactions and exchange-traded derivatives, as well as securities financing transactions such as repurchase agreements (repos and reverse repos), securities borrowing and lending transactions.

IB loans booked into UBS ESE are fully sub-participated to UBS AG London Branch (AGLB), under the terms of the revised MSPA (Master Sub-participation agreement) and are subject to existing Credit Risk Control processes and reporting.

Issuer Risk

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

Market risk

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

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

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

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

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

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

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

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

Liquidity and funding risk

Liquidity risk is the risk of not being able to effectively meet both expected und unexpected current and forecasted cash flows and collateral needs without negatively affecting either daily operations or the financial condition of the entity. The funding risk describes the risk that UBS Europe SE is unable, on an ongoing basis, to borrow funds in the market on an unsecured (or even secured) basis at an acceptable price to fund actual or proposed commitments, i.e. the risk that UBS Europe SE’s funding capacity is not sufficient to support its current business and desired strategy.

The entity's Liquidity & Funding Risk Management Framework defines the liquidity and funding risk management approach for UBS Europe SE. As such, the framework lays out the key principles, approach and governance for liquidity and funding risk management. It outlines the key models, tools and controls to manage the liquidity and funding risk of the entity under normal and severe stress conditions, and in accordance with the Management Board approved liquidity risk appetite and the corresponding structural limits. Both the liquidity and funding risk appetite and structural limits are proposed by Market & Treasury Risk Control who acts as the second line of defense for the entity's liquidity risk management.

Following its Liquidity & Funding Risk Management Framework, UBS Europe SE adheres to the Internal Liquidity Adequacy Assessment Process (ILAAP) regulatory requirements. The key output of the ILAAP and its annual documentation is the Management Board's assessment of UBS Europe SE's liquidity adequacy, formalized through the respective statement.

Operational risk

The risk resulting from inadequate or failed internal processes, people and systems, or from external causes (deliberate, accidental or natural) which have an impact (either financial or non-financial) to UBS, its clients or the markets in which it operates. Events may be direct financial losses or indirect losses in the form of revenue forgone as a result of business suspension. They may also result in damage to the reputation and to the franchise of UBS Europe SE, which have longer term financial consequences.

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

Conduct risk

Conduct risk is the risk that the conduct of the bank or its individuals unfairly impacts clients or counterparties, undermines the integrity of the financial system or impairs effective competition to the detriment of consumers. Conduct Risk is also understood as the current or prospective risk of losses to an institution arising from inappropriate supply of financial services including cases of willful or negligent misconduct.

Compliance risk

Compliance risk is the risk incurred by the bank by not adhering to the applicable laws, rules and regulations and the own 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 Operational Risk Control (ORC) in line with the holistic Operational Risk Framework (ORF) based on the three-lines-of-defense model, including the approved operational risk appetite, comprehensive control frameworks and key operational risk assessment and reporting processes.

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

During 2020, the key operational risk topics have been mainly driven by

- The COVID-19 pandemic during which UBS Europe SE has reacted quickly and effectively to the contingency situation generated by the pandemic. This has been evidenced by ensuring operational continuity in a scenario where most of the employees, customers and providers are working remotely, and due to the fact that no significant operational risk events or issues have been generated by the pandemic;
- Significant efforts to improve the overall Anti-Money Laundering (AML) framework. The bank invested significant efforts and Management attention to improve the overall AML framework, achieving a reduction in the number of issues related to AML. Additionally, two provisions were booked during the year to address the regulatory implications resulting from local inspections related to AML;
- Weakness in the Outsourcing Framework and in the implementation of the regulatory guidelines in line with MaRisk and EBA requirements as well as identified issues related to the inadequate implementation of the internal outsourcing policy were mitigated;
- Significant financial provisions that were booked related to legacy cases in the litigation portfolio, registering a high financial amount of provisions in comparison with previous years;
- Regulatory Reporting topics, particularly related to MiFID II requirements, where UBS Europe SE has identified a need for improving MiFID II Regulatory Reporting and initiated dedicated actions for this purpose.

As a result of the above mentioned key elements, the UBS Europe SE operational risk profile has been driven by the following operational risk taxonomies:

- AML/KYC
- Inter-entity outsourcing and external third-party providers
- Regulatory reporting
- External fraud

In order to increase the focus in operational risk control, with the objective of properly addressing regulatory requirements and at the same time of improving the capabilities for the early identification of emerging operational risks, also before materialization, UBS Europe SE has re-organized the ORC function, shifting the function from the former Compliance and Operational Risk Control (C&ORC) to Regulatory & Governance and Operational Risk Control.

Outsourcing risk

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

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

There have been no service deviations in 2020 causing a material adverse impact on the operations of UBS Europe SE. Also, until today there has been no material impact on UBS outsourcing operations from COVID-19.

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

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

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

Reputational risk

Reputational risk is the risk of damage to the reputation of UBS Europe SE from the point of view of its stakeholders, such as clients, 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. In the area of Financial Crime Prevention these are generally incidents which become known to the public. Besides negative news with regard to single cases, such incidents typically relate to sanctions because of non-compliance with regulatory requirements which become public knowledge.

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

Year-on-Year numbers of WM complaints are increasing by 14% compared to 2020. Main drivers were tax reporting issues in Q1 2020 and portfolio performance issues in Q4 2020 in Germany as well as the platform onboarding (1WMP project) in Q4 2020 in Italy. Decreasing trend in Luxembourg, Spain and Austria, despite a few complaints received with regards to the sale announcement of WM Austria branch.

No key reputational risks have been identified towards shareholders, staff and general public during 2020.

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

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

UBS Europe SE, Italy Branch

In 2019, the Bank of Italy conducted an onsite inspection of UBS Europe SE, Italy branch and the subsidiary UBS Fiduciaria S.p.A. with focus on AML related topics. The decision documents contained several adverse findings with a severe rating overall. The Bank of Italy initiated a sanction procedure against the bank and UBS Fiduciaria S.p.A., which concluded with a fine of EUR 1,488,000 levied against the bank and EUR 30,000 against UBS Fiduciaria. The bank is appealing the sanction.

UBS Europe SE Italy Branch and certain current and former employees have been under criminal/administrative investigation in Italy in relation to matters involving certain other financial intermediaries. Four individuals have been indicted on charges relating to AML/KYC requirements and are currently on criminal trial in Italy. In addition, the prosecutor is seeking indictment of five individuals in a related case. There are other administrative and civil cases connected to these matters, involving UBS Europe SE Italy Branch and/or its current or former employees.

Legal risk

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

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

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

A significant proportion of the value in dispute for UBS Europe SE, as legal successor to UBS (Luxembourg) S.A. is attributable to the consequences of the Madoff investment fraud. UBS Europe SE is indemnified by UBS AG up to a contractually defined maximum amount for Madoff-related liabilities that might arise as a result of having become the successor to UBS (Luxembourg) S.A. The indemnity agreement with UBS Europe SE has turned the original litigation risk into a counterparty risk involving UBS AG. As a consequence UBS Europe SE's concentration risk towards the group has increased. In order to appropriately monitor the enhanced concentration risk a "collateral posting process" has been implemented in addition to the already existing monitoring processes. According to the collateral posting process UBS AG needs to provide additional collateral in case its long term credit rating falls below a pre-defined threshold. In addition, the specific litigation risk is monitored by the Legal department on a continuous basis.

Apart from the aforementioned Madoff litigation cases, UBS Europe SE was involved in civil litigation cases in various jurisdictions where it operates and has established provisions for legal risks and damage claims amounting to EUR 38.8 m for these cases.

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

Risk mitigation

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

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

IT Risks

Both the volume of cyber–related attacks and their sophistication have increased 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 timely recognize and address developments in the threat landscape (scope) and to appropriately counteract the growing complexity 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 encountered. Frequent Management Reporting regarding Cyber Threat Risk has been established and regular status updates are presented to the Risk Control Committee. In addition, an extensive Red Team Test has been carried out on behalf of the UBS Europe SE division.

While cyber threats continue to represent a major concern for the entire bank sectors, no impacting events were reported as a result of cyber-attacks to UBS Europe SE in 2020.

The further development of the regulations (for EBA Guidelines on ICT, BAIT) as well as ensuring data security and integrity in data collection in the IT systems will be the focus of regulation in the coming years (or in the future) which will be closely monitored by UBS Europe SE.

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 known operational risk.

Furthermore, UBS group uses cloud computing as a strategy for future solutions and invests in this technology.

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

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

Risk position

The bank's own funds pursuant to Article 72 CRR amounted to EUR 3,982m (prior year: 3,764m), which corresponds to an overall ratio of 28.80% (prior year: 24.92%). The capital requirements according to Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) have been fulfilled at all times during the fiscal year.

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

Risk-weighted assets

EUR m	31.12.2020	31.12.2019
Credit risk	8,855	9,878
Settlement and delivery risk	58	54
Market risk	661	815
Operational risk	2,477	3,039
Credit value adjustments	1,099	1,315
Risk-weighted assets total	**13,150**	**15,101**

Summary presentation of the risk position

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

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

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

The following tables show the normative and the economic perspective of ICAAP as of 31 December 2020:

	Baseline scenario		Adverse scenario			
	3-year planned capital requirement		3-year adverse capital requirement and cumulative capital impacts			
	Going Concern Capital Requirement = 15.03%		*Total SREP Capital Requirement = 10.50%*			
	Planned RWA	RWA x Capital Requirement	Adverse RWA	Adverse RWA x TSCR	Capital impacts	Total
Credit Risk	11,272	1,695	10,057	1,056	200	1,256
Market Risk	3,475	523	3,833	402	16	419
Operational Risk	2,029	305	1,523	160	250	410
Business Risk				-	418	418
Funding Risk				-	140	140
Pension Risk				-	-	-
Total	**16,776**	**2,523**	**15,413**	**1,618**	**1,025**	**2,643**
Total capital requirement and scenario impact		**2,523**		**1,618**	**1,025**	**2,643**
Trigger Headroom		245		231		231
Total capital trigger level		**2,768**		**1,850**	**1,025**	**2,875**
Management buffer		503		125		125
Total capital target level (incl. management buffer)		**3,271**		**1,974**	**1,025**	**2,999**
Capital resources						
Total available capital resources		3,247				3,247
Capital surplus / (deficit) to trigger level		**479**				**373**

							31.12.2020
EUR m	WM	IB	AM	GALM	CC Services	NCL	Total
Credit and issuer risk incl. country risk	129	180	0	235	1	0	545
Market risk *	0	31	0	182	0	0	273
Operational risk incl. legal risk	644	170	11	26	14	12	877
Funding cost risk incl. FVA	21	1	0	108	0	0	126
Total	**794**	**382**	**11**	**551**	**15**	**12**	**1,821**
Pension risk	49	38	9	0	15	0	113
Business Risk	178	49	-31	0	68	0	264
Aggregated risk exposure incl pension risk and business risk	**1,021**	**469**	**-12**	**551**	**99**	**99**	**2,198**
Management buffer (held constant)							330
Aggregated risk exposure incl pension risk, business risk and management buffer							**2,528**
Capital resources							
Total available internal capital							2,617
Capital surplus/(deficit) after managementt buffer							**89**

*Aggregated Market Risk currently includes an uncertainty buffer

Forecast Report

3-Year strategic plan

Along with a strong capital base, UBS Europe SE is expected to remain profitable and reach its profitability goals over the 3-Year planning horizon, despite the turbulent market and economic environment and a number of one-off items expected to impact 2021.

The baseline envisages growth of economic activity of more than 5.5% in 2021 coupled with continued low interest rate environment in the US and EU. Overall market assumptions for 2021-2023 have deteriorated compared with the previous planning cycle for 2020-2022 which impacted the planned profitability. Although GDP increases in 2021, a return to pre-crisis levels is not expected until at least 2022, with rising bankruptcies and high unemployment contributing to a weak recovery. VAT cuts in Germany and delayed summer sales contribute to a decline in BPI inflation across the Eurozone close to 0%, before rising to 2% in 2021. Global equity prices remain flat under the baseline projections and Eurozone equities grow by approximately 3.5% in 2021.

The consolidated profit before tax for UBS Europe SE is at EUR 176m for 2020, expected to decrease according to plan in 2021 with a sharp increase in 2022. The decrease in 2021 relates to various one-off items and changes which are explained below, while underlying business is expected to gradually grow over the 3-year planning cycle.

In 2020, the firm benefited from market volatility and elevated transactional revenues at the start of the COVID-19 pandemic. The growth of transactional revenues is not assumed to repeat in 2021 but transactional revenues are expected to remain at similar levels as 2020. The plan for 2021 is considered conservative and has been prepared as such given the ongoing pandemic.

The 3-Year Strategic Plan 2021-2023 has been developed on a basis that the business model remains unchanged. Any possible business model changes, specifically for the Investment Bank booking model that may occur in the second half of 2021 will be considered in the next planning cycle. A forecast will be prepared in 2021 once the impact is assessed and if any change materially impacts 2021 financials.

Extraordinary M&A items (sale of the Austria business) are not part of the 3-Year Strategic Plan but will be treated and tracked separately as agreed with the Management Board and with the Group. The sale of the Austria business is expected to be finalized in the third quarter of 2021, meaning the majority of revenues and costs will be part of the entity financials in 2021. Outer years will be adjusted in the next planning cycle.

Global Wealth Management

For Global Wealth Management a performance slighty down from the previous year is expected for 2021 followed by a significant growth in 2022 and 2023 to the following effects:

- material growth of the loan portolio
- moderate increase in deposits
- higher recurring fees driven by prioritizing UBS Manage and encourage clients to invest more actively
- positive market development
- pricing adjustments for cash deposits in EUR and
- exiting of non profitable client relationships

With costs declining slightly a moderate decrease of the cost/income ratio is predicted.

Investment Bank

Investment Bank profit before tax is expected to decrease in 2021 due to the following:

- liquidation of the UK branch
- macroeconomic and market conditions
- higher German bank levy

For 2022 and 2023 a moderate increase of the profit before tax is expected. Furthermore, cost/income ratio should be stable.

Asset Management

For Asset Management it is expected that income will return to the level of 2019. A slight increase of the revenues is estimated for the years to come. With stable costs, the profit before tax will increase slightly and the cost/income ratio will decrease.

In summary, UBS Europe SE expects a moderate decrease in revenues in 2019 due to the developments and one-off effects described above. The costs are expected to slightly decrease but will not compensate the lower revenues, leading to a slight increase in the cost/income ratio. Return on CET1 (RoCET1) is expected at 4%.

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 2021

UBS Europe SE
Management Board

Christine Novakovic	Dr. Andreas Przewloka	Heinrich Baer
Pierre Chavenon	Georgia Paphiti	Tobias Vogel

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

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

Other disclosures for the financial year 2020

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

Scope of consolidation

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

UBS Group AG, Zurich, prepared exempted consolidated financial statements. These are available at UBS Europe SE and are published by UBS Beteiligungs-GmbH & Co. KG, Frankfurt am Main, in German language in the Electronic

Federal Federal Gazette ["Elektronischer Bundesanzeiger"].

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB).

Foreign Branches

UBS Europe SE has foreign branches in the following locations:

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

Key services

UBS Europe SE offers the following key services:

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

Revenues

UBS Europe SE generated total revenues of EUR 1,133.3m. This amount includes net interest income, net commission income, current income from shares and other variable-yield securities, equity investments and investments in affiliated companies, net trading income and other operating income.

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

Geographical breakdown of revenues

EUR k	2020
Denmark	1,894
Germany	396,974
France	36,691
Italy	191,649
Luxembourg	230,122
Great Britain	113,709
Netherlands	39,087
Austria	25,593
Poland	1,229
Sweden	14,686
Switzerland	4,804
Spain	76,882
Total UBS Europe SE	**1,133,320**

Employees

The average number of employees in full-time equivalents was 2,024 in 2020.

Geographical breakdown

	31.12.2020
… by locations	
Germany	654
Italy	482
Luxembourg	443
Spain	248
Austria	60
Netherlands	30
Sweden	25
France	73
Denmark	5
Poland	3
Switzerland	2

Net profit for the year

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

EUR k	Result before tax on profit and loss	Taxes on profit and loss	Result after tax on profit and loss
Denmark	86	0	86
Germany	30,603	6,963	23,639
Germany without UBS Europe SE Treasury	53,172	6,963	46,208
France	-2,204	2,204	-4,408
Great Britain	19,340	-3,156	22,496
Netherlands	30,993	7,614	23,379
Italy	-14,103	3,283	-17,386
Luxembourg	76,421	19,734	56,687
Austria	6,641	1,924	4,717
Poland	-179	0	-179
Sweden	5,041	1,080	3,961
Switzerland	487	59	428
Spain	-3,339	-1,060	-2,278
Total UBS Europe SE	**149,786**	**38,646**	**111,141**

Public subsidies

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

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

Return on capital (as ratio of net profit by total assets) for UBS Europe SE is 0.23%.

Report of the Supervisory Board for 2020

English / Englisch

Report of the Supervisory Board for 2020

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 2020 the Management Board regularly informed the Supervisory Board about the business policy as well as general questions of corporate governance and corporate planning, financial development, profitability and risk management. Important topics and decisions were regularly discussed in meetings between the Chair of the Management Board and the Chair of the Supervisory Board.

In the financial year 2020, the Supervisory Board has had six ordinary and three extra-ordinary meetings. In these meetings, all relevant issues and topics were discussed and appropriate decisions were taken. Moreover, all relevant topics and developments on strategies were discussed together with the Management Board. Additionally the four Supervisory Board committees (Risk Committee, Audit Committee, Nomination Committee and Remuneration Committee) support the Supervisory Board in performing its tasks and functions, in accordance with the Rules of Procedures and the legal requirements. According to the Rules of Procedure of the Supervisory Board, the Supervisory Board performed its annual self-assessment in Q2.

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 2020 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 2020

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 2020 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 2020 zu insgesamt sechs ordentlichen und drei außerordentlichen Sitzungen zusammen. In diesen Sitzungen wurden alle für den Aufsichtsrat relevanten Themen diskutiert und die notwendigen Beschlüsse gefasst. Die Berichte und Entwicklung der einzelnen Geschäftsbereiche wurden zudem gemeinsam mit der Geschäftsleitung erörtert sowie die strategischen Fragestellungen diskutiert. Weiterhin hat der Aufsichtsrat seine Aufgaben gemeinsam mit den vier bestehenden Ausschüssen (Risikoausschuss, Prüfungsausschuss, Nominierungsausschuss und Vergütungskontrollausschuss) gemäß den regulatorischen Vorgaben und der Geschäftsordnung wahrgenommen. Entsprechend der Geschäftsordnung des Aufsichtsrats wurde die jährliche Selbsteinschätzung des Aufsichtsrates in Q2 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 2020 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 2021

The Supervisory Board / Der Aufsichtsrat

Roland Koch
Chair of the Supervisory Board / Vorsitzender des Aufsichtsrat

UBS