



UBS General Terms and Conditions for Credit Linked Notes

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APPENDIX 1: SETTLEMENT MATRIX

APPENDIX 2: DESCRIPTION OF UBS AG

I. Preliminary Remarks

UBS AG (the "**Issuer**" or "**UBS AG**" or "**UBS**") may from time to time issue credit linked notes (the "**Notes**"). The Notes will be issued based on (i) the information set out in these "**General Terms and Conditions for Credit Linked Notes**", as amended from time to time (the "**General Terms and Conditions**") and (ii) the relevant final terms of each Note (the "**Final Terms**"). The General Terms and Conditions and the relevant Final Terms shall form the entire documentation for each Note (the "**Product Documentation**") and should always be read in conjunction with each other. In the case of any inconsistency between the General Terms and Conditions and the Final Terms, the Final Terms shall prevail. In the event that the Notes are listed (see section 'General Information' in the relevant Final Terms), the Product Documentation will be amended in accordance with the listing requirements of the Relevant Stock Exchange.

The Issuer accepts responsibility for all information contained in the Product Documentation and has taken all reasonable care to ensure that the facts stated therein are true and accurate in all material respects and that there are no other material facts the omission of which would make misleading any statement therein.

The offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons who obtain possession of the Product Documentation are required to inform themselves about and to adhere to any such restrictions which are set out in more detail in the relevant Final Terms under the section headed 'Selling Restrictions'. The Product Documentation does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation. The Notes purchased by any person for resale may not be offered in any jurisdiction in circumstances which would result in the Issuer being obliged to register any further documentation or take any other action relating to the Notes in such jurisdiction. The selling restrictions listed in the relevant Final Terms must not be taken as definitive guidance as to whether the Notes can be sold in a jurisdiction. Additional restrictions on offering, selling or holding of the Notes may apply in other jurisdictions. Noteholders should seek specific advice before on-selling the Notes.

During the whole term of the Notes, the Product Documentation can be ordered free of charge from the Issuer at P.O. Box, CH-8098 Zurich (Switzerland), via telephone (+41 (0)44 239 47 03), fax (+41 (0)44 239 69 14) or e-mail (swiss-prospectus@ubs.com). In addition, for clients outside the United Kingdom, the Product Documentation is available on the internet at <http://www.ubs.com/keyinvest>.

II. Product Specific Terms and Conditions

1. Interest

1.1 Interest Payments

1.1.1 *Single Name Credit Linked Notes*

Unless otherwise stated in the relevant Final Terms, each Note bears interest at the applicable Interest Rate on its Specified Denomination from and including the Issue Date to but excluding the Scheduled Maturity Date *provided* that no Credit Event has occurred prior to the Scheduled Maturity Date. If a Credit Event has occurred prior to the Scheduled Maturity Date, no interest will accrue, be calculated or be payable from the Scheduled Interest Payment Date immediately preceding the Credit Event or, as the case may be, the Issue Date. The Interest Amount in respect of each Note will be paid in arrear on each Scheduled Interest Payment Date (subject to section II. 1.2 (*Postponement of Interest Payments*)).

In no case shall interest accrue or be payable on the Notes for any time period on or after the Scheduled Maturity Date (including, without limitation, in the event of a redemption after the Scheduled Maturity Date in accordance with sections II. 2.2 (*Redemption following a Credit Event*) or II. 2.3 (*Postponement of Redemption or Postponement of Partial Redemption*)).

1.1.2 *Basket Credit Linked Notes and Index Credit Linked Notes*

Unless otherwise stated in the relevant Final Terms, each Note bears interest at the applicable Interest Rate on its Outstanding Denomination from and including the Issue Date to but excluding the Scheduled Maturity Date. The Interest Amount in respect of each Note will be paid in arrear on each Scheduled Interest Payment Date (subject to II. 1.2 (*Postponement of Interest Payments*)).

In no case shall interest accrue or be payable on the Notes for any time period on or after the Scheduled Maturity Date (including, without limitation, in the event of a redemption after the Scheduled Maturity Date in accordance with sections II. 2.2 (*Redemption following a Credit Event*) or II. 2.3 (*Postponement of Redemption or Postponement of Partial Redemption*)).

1.2 Postponement of Interest Payments

1.2.1 *Single Name Credit Linked Notes*

If a Potential Credit Event (other than an event which would solely constitute a Restructuring) occurs in relation to the Reference Entity and is continuing on a Scheduled Interest Payment Date, the Issuer shall suspend the interest payment on such Scheduled Interest Payment Date until the relevant Credit Derivatives Determinations Committee either determines that the Potential Credit Event does not constitute a Credit Event or announces that it will not resolve the matter whether a Credit Event has occurred. On the fifth Business Day following such determination, or, in case such determination takes place after the Scheduled Maturity Date, on the applicable Redemption Date (as described in section II. 2.3.1 (*Single Name Credit Linked Notes*)) the Issuer shall pay to each Noteholder an amount per Note equal to the suspended interest payment(s). The Issuer is not obliged to pay any default interest or other amounts in respect of such suspension of interest payments and such suspension does not constitute an event of default in respect of the Issuer.

Notwithstanding anything to the contrary in this section II. 1.2.1 (*Postponement of Interest Payments – Single Name Credit Linked Notes*), if subsequent to the suspension described above, the Potential Credit Event results in a Credit Event, no payment of the suspended interest payment(s) shall be made by the Issuer and the Notes shall be redeemed in accordance with section II. 2.2 (*Redemption following a Credit Event*).

1.2.2 Basket Credit Linked Notes and Index Credit Linked Notes

If a Potential Credit Event (other than an event which would solely constitute a Restructuring) occurs in relation to a Reference Entity and is continuing on a Scheduled Interest Payment Date, the Interest Amount payable by the Issuer on such Scheduled Interest Payment Date shall be determined on the assumption that the Potential Credit Event constitutes a Credit Event in relation to such Reference Entity. If the relevant Credit Derivatives Determinations Committee subsequently determines that the Potential Credit Event does not constitute a Credit Event or announces that it will not resolve the matter whether a Credit Event has occurred, the Issuer shall, within 5 Business Days following such determination, or in case such determination takes place after the Scheduled Maturity Date, on the applicable Redemption Date, pay to each Noteholder an amount per Note equal to the difference between the Interest Amount paid and the Interest Amount which would have been payable in the absence of such Potential Credit Event (such difference, the "**Suspended Interest Amount**"). The Issuer is not obliged to pay any default interest or other amounts in respect of any such reduction and delay of interest payments and such reduction and delay does not constitute an event of default in respect of the Issuer.

Notwithstanding anything to the contrary in this section II. 1.2.2 (*Postponement of Interest Payments – Basket Credit Linked Notes and Index Credit Linked Notes*), if subsequent to the reduction described above, the Potential Credit Event results in a Credit Event, no payment of the Suspended Interest Amount shall be made by the and the Notes shall be redeemed in accordance with section II. 2.2 (*Redemption following a Credit Event*).

1.3 Other Interest-related Provisions

1.3.1 Day Count Fraction and Business Day Convention

1.3.1.1 Day Count Fraction

The Calculation Agent shall calculate the Day Count Fraction for a relevant period as follows:

- (a) if "Actual/365", "Act/365", "A/365", "Actual/Actual" or "Act/Act" is specified in the relevant Final Terms, the actual number of days in such period in respect of which payment is being made divided by 365 (or, if any portion of that period falls in a leap year, the sum of (i) the actual number of days in that portion of such period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of such period falling in a non-leap year divided by 365);
- (b) if "Actual/365 (Fixed)", "Act/365 (Fixed)", "Act/365 Fixed" or "Act/365F" is specified in the relevant Final Terms, the actual number of days in such period in respect of which payment is being made divided by 365;
- (c) if "Actual/360", "Act/360" or "A/360" is specified in the relevant Final Terms, the actual number of days in such period in respect of which payment is being made divided by 360;
- (d) if "30/360", "360/360" or "Bond Basis" is specified in the relevant Final Terms, the number of days in such period in respect of which payment is being made divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of such period is the 31st day of a month but the first day of such period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month or (ii) the

last day of such period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and

- (e) if "30E/360" or "Eurobond Basis" is specified in the relevant Final Terms, the number of days in such period in respect of which payment is being made divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months, without regard to the date of the first day or last day of such period unless, in the case such period ends on the Scheduled Maturity Date and the Scheduled Maturity Date is the last day of the month of February, the month of February shall not be considered to be lengthened to a 30-day month).

1.3.1.2 Adjusted or Unadjusted Business Day Convention

If the first and/or last day of a period in respect of which an Interest Amount is to be calculated would fall on a day that is not a Business Day, then solely for purposes of calculating the applicable Day Count Fraction (and the Interest Amount payable under the Notes), such day shall

- (a) if "Unadjusted" is specified in the relevant Final Terms, not be adjusted in accordance with the applicable Business Day Convention; and
- (b) if "Adjusted" (or neither "Adjusted" or "Unadjusted") is specified in the relevant Final Terms, be adjusted in accordance with the applicable Business Day Convention.

1.3.2 Notes with Interest subject to a Reference Rate

1.3.2.1 Determination of the applicable Reference Rate

If the relevant Final Terms specify that the Interest Rate in respect of an Interest Period is not fixed but depends on a Reference Rate, the Calculation Agent shall determine the relevant fixing of the applicable Reference Rate in accordance with its definition (see section IV. (*Definitions*)).

If the source specified in the definition of the relevant Reference Rate does not publish the relevant fixing on the relevant fixing date, then the Calculation Agent shall attempt to obtain a fixing for the rate for deposits (or bills of exchange in the case of "AUD-BBSW" or "AUD-BBR-BBSW"), in the relevant currency for a period of the Designated Maturity and in such amount as the Calculation Agent shall determine either:

- (a) from an alternative or successor price source which the Calculation Agent determines is under the then prevailing circumstances available and which is also recognized as a source for the relevant rate (which shall be the Reference Rate); or
- (b) on the basis of quotations from four (or such other number as the Calculation Agent may determine having regard to market conventions) major banks or leading dealers (the "**Reference Banks**") in the relevant market selected by the Calculation Agent in its discretion. If two or more of the Reference Banks provide the Calculation Agent with such quotations, the Reference Rate shall be the arithmetic mean (rounded if necessary to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards) of such quotations, as determined by the Calculation Agent. If only one or none of the Reference Banks provides the Calculation Agent with such quotations, the Reference Rate shall be determined by the Calculation Agent in its discretion.

1.3.2.2 Interpolation of Reference Rate

If the Notes are subject to a Reference Rate and the relevant Interest Period is shorter or longer than the Designated Maturity (other than for reasons due to adjustments in accordance with the applicable Business Day Convention), the applicable Reference Rate for such Interest Period shall be determined by linear interpolation of (a) the applicable Reference Rate corresponding to the Designated Maturity for which the applicable Reference Rate is typically quoted and which is next shorter than the Interest Period and (b) the applicable Reference Rate corresponding to the Designated Maturity for which the applicable Reference Rate is typically quoted and which is next longer than the Interest Period.

1.3.3 Notification of Interest Rate, Interest Amount and Scheduled Interest Payment Date

The Calculation Agent will notify the Noteholders of each Interest Rate, Interest Amount and Scheduled Interest Payment Date as soon as reasonably practicable after the determination thereof. Each Interest Rate, Interest Amount and Scheduled Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements by way of adjustment may be made) without notice to the Noteholders if such amendment is made due to (a) an extension or shortening of the Interest Period; (b) an error; or (c) the occurrence of a Credit Event or Potential Credit Event.

1.3.4 Default Interest

If the Issuer for any reason (other than due to the occurrence of a Settlement Disruption Event pursuant to section III. 6 (*Settlement Disruption Event*)) fails to render any payment in respect of the Notes when due, interest shall continue to accrue at the default rate established by statutory law on the due amount from and including the due date to but excluding the day on which such payment is received by or on behalf of the relevant Noteholders.

2 Redemption

2.1 Scheduled Redemption

2.1.1 *Single Name Credit Linked Notes*

Subject to section II. 2.2 (*Redemption following a Credit Event*), section II. 2.3 (*Postponement of Redemption or Postponement of Partial Redemption*) and section II. 2.5 (*Early Redemption*), each Note shall be redeemed by the Issuer at its Specified Denomination on the Scheduled Maturity Date.

2.1.2 *Basket Credit Linked Notes and Index Credit Linked Notes*

Subject to section II. 2.2 (*Redemption following a Credit Event*), section II. 2.3 (*Postponement of Redemption or Postponement of Partial Redemption*) and section II. 2.5 (*Early Redemption*), each Note shall be redeemed by the Issuer on the Scheduled Maturity Date at its Outstanding Denomination as of such Scheduled Maturity Date.

2.2 Redemption following a Credit Event

2.2.1 *Credit Event*

If a Credit Event occurs in respect of a Reference Entity during the Reference Period, the Notes shall be redeemed or, as the case may be, partially redeemed pursuant to and in accordance with this section II. 2.2. In case of such redemption or partial redemption, as the case may be, the Issuer will (in the case of a Credit Event falling within paragraph (a) below) give a Credit Event Notice to the Noteholders as soon as reasonably practicable after the determination that a Credit Event with respect to the relevant Reference Entity has occurred.

An event in respect of a Reference Entity constitutes a Credit Event if either

- (a) ISDA has publicly announced that the relevant Credit Derivatives Determinations Committee has resolved that such an event is a Credit Event; or
- (b) the Calculation Agent has reasonably determined that such event constitutes a Credit Event *and* the Issuer has given a Credit Event Notice to the Noteholders, provided that prior to the Issuer giving a Credit Event Notice to Noteholders, (i) ISDA has publicly announced that the relevant Credit Derivatives Determinations Committee has decided that it will not resolve the matter whether a Credit Event has occurred with respect to such Reference Entity or (ii) there has been no announcement by ISDA that the relevant Credit Derivatives Determinations Committee will decide whether a Credit Event has occurred with respect to such Reference Entity.

Any delay in giving a Credit Event Notice, non-receipt of a Credit Event Notice or (in the case of paragraph (a) above) failure to give a Credit Event Notice, shall not affect the redemption or, as the case may be, partial redemption of the Notes pursuant to this section II. 2.2 (*Redemption following a Credit Event*).

If such event is solely a Restructuring and ISDA has announced that the relevant Credit Derivatives Determinations Committee has resolved that such event is a Credit Event according to para. (a) above, it shall only constitute a Credit Event if the Issuer has given a Credit Event Notice to the Noteholders, *provided* that if ISDA has announced that an auction will be conducted to determine an Auction Final Price, the Credit Event Notice must be sent prior to the date on which the Auction Final Price is determined.

For the avoidance of doubt, if a Credit Derivatives Determinations Committee determines that an event does not constitute a Credit Event, such determination shall be binding for the Calculation Agent (except where an Auction Final Price has already been determined or a Valuation Date or Physical Redemption Date has already occurred in respect of such Credit Event).

2.2.2 Cash Redemption

2.2.2.1 Single Name Credit Linked Notes

Following the occurrence of a Credit Event in respect of the Reference Entity during the Reference Period, the Issuer shall redeem each Note at the applicable Redemption Amount on the Redemption Date, each as specified in the relevant Final Terms. The Issuer shall, following the determination of the Redemption Amount and at least two Business Days prior to the Redemption Date, send a notice in writing (the "**Redemption Notice**") to the Noteholders specifying the Redemption Amount and the corresponding Redemption Date (*provided* that any failure to give such notice, or non-receipt thereof, shall not affect the right of the Issuer to redeem the Notes pursuant to this section II. 2.2.2 (*Cash Redemption*)).

2.2.2.2 Basket Credit Linked Notes and Index Credit Linked Notes

Following the occurrence of a Credit Event in respect of a Reference Entity during the Reference Period, the Issuer shall partially redeem each Note at the applicable Partial Redemption Amount on the corresponding Redemption Date, each as specified in the relevant Final Terms, and the Outstanding Denomination of each Note shall be reduced in accordance with its definition. The Issuer shall, following the determination of the Partial Redemption Amount and at least two Business Days prior to the Redemption Date, send a notice in writing (the "**Redemption Notice**") to the Noteholders specifying the Partial Redemption Amount and the corresponding Redemption Date (*provided* that any failure to give such notice, or non-receipt thereof, shall not affect the right of the Issuer to redeem the Notes pursuant to this section II. 2.2.2 (*Cash Redemption*)).

2.2.3 Physical Redemption

Notwithstanding section II. 2.2.2 (*Cash Redemption*) above, if (a) ISDA publicly announces that no auction will be held to determine an Auction Final Price in respect of a Credit Event and Reference Entity or (b) no Auction Final Price is determined by ISDA in respect of the Reference Entity and Credit Event on or prior to the day falling 150 calendar days following (A) the date ISDA publicly announced that the relevant Credit Event Determinations Committee resolved that such a Credit Event occurred, or (B) if ISDA did not make such an announcement, the date the Issuer gave a Credit Event Notice to the Noteholders, the Issuer has, in lieu of redeeming or partially redeeming the Notes in accordance with section II. 2.2.2 (*Cash Redemption*), the right (but not the obligation) to redeem or partially redeem the Notes by physical delivery of Selected Deliverable Obligations and/or cash. In this case, the Issuer shall determine the composition of the Portfolio (net of any Breakage Costs) and shall, on the Physical Redemption Date, deliver to each Noteholder its *pro rata* share of the Portfolio. In order to redeem or partially redeem the Notes by such physical delivery, the Issuer shall give at least 5 Business Days' prior notice (the "**Notice of Physical Settlement**") to the Noteholders of the following:

- (i) the Physical Redemption Date;
- (ii) a detailed description of each of the Selected Deliverable Obligations and/or cash that will constitute the Portfolio;
- (iii) the face value of the Selected Deliverable Obligations that are to be delivered and the CUSIP or ISIN number of each of them if available (if such identifier is not available, the rate and tenor of the

obligation and/or such other details that are commonly used to settle a transfer of the obligation in question); and

- (iv) the method by which the Noteholders must provide their settlement instructions to the Issuer.

The Issuer may give subsequent Notices of Physical Settlement to change the Physical Redemption Date and/or the constituents of the Portfolio and/or the description of the obligations at any time by giving a new Notice of Physical Settlement to the Noteholders at least 2 Business Days before the (restated) Physical Redemption Date and the last Notice of Physical Settlement given shall override all previous such notices. The Issuer may correct any errors or inconsistencies in the description of the Selected Deliverable Obligations by notice to the Noteholders prior to the Physical Redemption Date.

If required by the relevant Clearing System, the Noteholders shall notify the Issuer as soon as possible after receipt of the Notice of Physical Settlement of their instructions for settlement. If a Noteholder fails to notify the Issuer, as applicable, of its settlement instructions, the Issuer shall not be obliged to deliver the relevant assets until 5 Business Days following the receipt of the relevant Noteholder's settlement instructions. Delivery shall be made in accordance with standard market practice applicable to the relevant Selected Deliverable Obligation.

Notwithstanding anything to the contrary in this section II. 2.2.3, the Issuer may decide to redeem the Notes in accordance with section II. 2.2.2 (*Cash Redemption*) even after a Notice of Physical Settlement has been sent to the Noteholders by delivery of a notice to Noteholders overriding the Notice of Physical Settlement (in which case the Valuation Date shall be a date chosen by the Issuer in the period from (and including) the date of such notice to (and including) the 10th Business Day following such date).

2.3 Postponement of Redemption or Postponement of Partial Redemption

2.3.1 *Single Name Credit Linked Notes*

If the Calculation Agent determines that

- (a) if "Grace Period Extension" is applicable pursuant to the Settlement Matrix and Transaction Type of the Reference Entity, a Potential Failure to Pay has occurred with respect to the Reference Entity and is continuing on the Scheduled Maturity Date (but no Credit Event has occurred on or prior to the Scheduled Maturity Date);
- (b) if "Repudiation/Moratorium" is specified as Credit Event in the Settlement Matrix applicable to the Transaction Type of the Reference Entity, a Potential Repudiation/Moratorium has occurred with respect to the Reference Entity and is continuing on the Scheduled Maturity Date (but no Credit Event has occurred on or prior to the Scheduled Maturity Date); or
- (c) a Potential Credit Event has occurred with respect to the Reference Entity on or before the Scheduled Maturity Date,

the Issuer may elect to postpone the redemption of the Notes, in which case the Issuer shall give notice in writing to the Noteholders of its election of such postponement on or as soon as reasonably practicable after the Scheduled Maturity Date (provided that any failure to give such notice or delay in giving such notice, or non-receipt thereof, shall not affect the right of the Issuer to postpone the redemption of the Notes pursuant to this section II. 2.3). The Issuer is not obliged to pay any default interest or other amounts due to any such postponement and such postponement does not constitute an event of default in respect of the Issuer.

If subsequent to the postponement of the redemption of the Notes (but before an Auction Final Price has been determined or any Valuation Date or Physical Redemption Date has occurred in respect of the Notes) ISDA publicly announces that the related Credit Derivatives Determinations Committee resolved that a Credit Event has *not*

occurred with respect to the Reference Entity, the Issuer shall redeem each Note at its Specified Denomination on the applicable Redemption Date specified in the relevant Final Terms (or, if no Redemption Date is specified, five Business Days following such announcement by ISDA), together with the Interest Amount that would have been due on the Scheduled Maturity Date but has been suspended pursuant to and in accordance with section II. 1.2.1 (*Single Name Credit Linked Notes*).

If subsequent to the postponement of the redemption of the Notes the Potential Failure to Pay, Potential Repudiation/Moratorium or Potential Credit Event results in a Credit Event, the Notes shall be redeemed in accordance with section II. 2.2 (*Redemption following a Credit Event*) at the applicable Redemption Amount on the Redemption Date, each as specified in the relevant Final Terms (or, if no Redemption Date is specified, 5 Business Days following the determination of the Final Price and the Redemption Amount).

2.3.2 Basket Credit Linked Notes and Index Credit Linked Notes

If the Calculation Agent determines that

- (a) if "Grace Period Extension" is applicable pursuant to the Settlement Matrix and the Transaction Type of the Reference Entity, a Potential Failure to Pay has occurred with respect to a Reference Entity and is continuing on the Scheduled Maturity Date (but no Credit Event has occurred on or prior to the Scheduled Maturity Date);
- (b) if "Repudiation/Moratorium" is specified as Credit Event in the Settlement Matrix applicable to the Transaction Type of the Reference Entity, a Potential Repudiation/Moratorium has occurred with respect to a Reference Entity and is continuing on the Scheduled Maturity Date (but no Credit Event has occurred on or prior to the Scheduled Maturity Date); or
- (c) a Potential Credit Event has occurred with respect to a Reference Entity on or before the Scheduled Maturity Date ,

the Calculation Agent shall determine the Outstanding Denomination in respect of each Note on the assumption that such Reference Entity is subject to a Credit Event and the Issuer shall, on the Scheduled Maturity Date, partially redeem each Note at such Outstanding Denomination.

If subsequent to the partial redemption of the Notes the Potential Failure to Pay, Potential Repudiation/Moratorium or Potential Credit Event does not result in a Credit Event with respect to the relevant Reference Entity, the Calculation Agent shall calculate the difference between

- (i) the Redemption Amount per Note that would have been payable on the Scheduled Maturity Date if the Reference Entity in respect of which the Potential Failure to Pay, the Potential Repudiation/Moratorium or the Potential Credit Event, as applicable, has occurred, was not subject to a Credit Event; and
- (ii) the Outstanding Denomination that has been paid on the Scheduled Maturity Date,

and the Issuer shall, on the Redemption Date specified in the relevant Final Terms (or, if no Redemption Date is specified, 5 Business Days following ISDA publicly announces that a Credit Event has not occurred (provided that an Auction Final Price has not been determined and a Valuation Date or Physical Redemption Date has not occurred), pay in respect of each Note an amount equal to such difference together with the Suspended Interest Amount pursuant to section II 1.2.2 (*Basket Credit Linked Notes and Index Credit Linked Notes*). The Issuer is not obliged to pay any default interest or other amounts due to any such delay and such delay does not constitute an event of default in respect of the Issuer.

If subsequent to the partial redemption of the Notes the Potential Failure to Pay, Potential Repudiation/Moratorium or Potential Credit Event results in a Credit Event, section II. 2.2 (*Redemption following a Credit Event*) shall apply with respect to the amount relating to the Reference Entity in respect of which such Credit Event occurred.

2.4 Determination of Final Price

Unless a fixed percentage is specified as Final Price in the relevant Final Terms, in which case the Redemption Amount or Partial Redemption Amount, as applicable, shall be determined by reference to such fixed percentage number, the Calculation Agent shall determine the Final Price to be used to determine the Redemption Amount or Partial Redemption Amount, as applicable, in accordance with this section II. 2.4.

2.4.1 Determination of the Final Price by Reference to the Auction Final Price determined by ISDA

Following the occurrence of a Credit Event, and the relevant Credit Derivatives Determinations Committee resolving that an auction is to be held, ISDA generally determines a number referred to as "Final Price" applicable to credit derivatives transactions referencing the Reference Entity which is subject to the relevant Credit Event (the "**Auction Final Price**"). The Auction Final Price is determined in an auction process where bid (and offer) prices in respect of certain obligations of such Reference Entity are requested from market participants as further outlined on ISDA's website <http://www.isda.org> (or any successor website thereto). A list (the "Final List") of the obligations subject to such auction will be published by ISDA prior to the auction. In principle, any obligation which fulfills certain criteria specified as "Deliverable Obligation Category" and "Deliverable Obligation Characteristics" set out in the Settlement Matrix for the Transaction Type applicable to the Reference Entity (including, where applicable, that it is not subordinated to the Reference Obligation or, if no Reference Obligation is specified, not subordinated to any other senior unsecured obligation), may be listed in the Final List and therefore the Final Price may represent the market value of the cheapest obligation in the Final List. However, no assurance can be given that the selected obligations in the Final List will indeed fulfill all those criteria specified by the "Deliverable Obligation Category" and "Deliverable Obligation Characteristics" set out in the Settlement Matrix for the Transaction Type applicable to the Reference Entity (or that obligations on the Final List would otherwise be Deliverable Obligations for the purposes of the Notes).

The Final Price is expressed as a percentage and generally published on <http://creditfixings.com/CreditEventAuctions>. Unless otherwise stated in the Final Terms, if ISDA determines more than one Final Price (because Restructuring was the only Credit Event) for different maturity buckets, the Calculation Agent shall use the Final Price of the longest maturity bucket to determine the Redemption Amount.

The Calculation Agent may use the Auction Final Price notwithstanding the fact that the Settlement Matrix does not specify any requirements as to maturity limitation or transferability of the Deliverable Obligations.

2.4.2 Fallback Determination of the Final Price

In the event that (a) ISDA publicly announces that no auction will be held to determine an Auction Final Price in respect of a Credit Event and Reference Entity or (b) no Auction Final Price is determined by ISDA in respect of the Reference Entity and Credit Event on or prior to the day falling 150 calendar days following (A) the date ISDA publicly announced that the relevant Credit Event Determinations Committee resolved that such a Credit Event occurred, or (B) if ISDA did not make such an announcement, the date the Issuer gave a Credit Event Notice to the Noteholders, the Final Price shall be determined by the Calculation Agent in accordance with the following (such Final Price, the "**Valuation Final Price**"):

- (i) The Issuer shall select obligations (each such obligation, a "Selected Deliverable Obligation") issued or guaranteed by the Reference Entity which the Calculation Agent determines are Deliverable Obligations.

Deliverable Obligations are obligations which fulfil the "Deliverable Obligation Category" and "Deliverable Obligation Characteristics" for the Transaction Type applicable to the Reference Entity, all as more particularly described in the definition of "Deliverable Obligation" in section IV (*Definitions*).

- (ii) On the Valuation Date, the Calculation Agent shall attempt to obtain firm bid quotations for each Selected Deliverable Obligation from at least five Dealers. The amount in respect of each Selected Deliverable Obligation for which a firm bid is requested (such amount, the "**Quotation Amount**") shall be selected by the Calculation Agent in its discretion such that the aggregate Quotation Amount of all Selected Deliverable Obligations does not exceed the aggregate principal amount of the outstanding Notes (*multiplied by* the Entity Weighting of the affected Reference Entity in case of Basket Credit Linked Notes or Index Credit Linked Notes). The bid quotations shall exclude accrued but unpaid interest.
- (iii) With respect to each Selected Deliverable Obligation for which not at least one Full Quotation or Weighted Average Quotation (each a "**Quotation**") can be obtained on the Valuation Date, the Calculation Agent shall attempt to obtain Full Quotations from at least five Dealers on the 5th Business Day following the Valuation Date (and, if necessary, another 5 Business Days thereafter). For purposes of this paragraph, any day falling within the period from and including 20 December of a calendar year to and including 5 January of the following calendar year shall not be regarded as a Business Day.
- (iv) For each Selected Deliverable Obligation, for which the Calculation Agent is unable to obtain at least one Full Quotation or Weighted Average Quotation in accordance with the methodology described in (i) to (iii) above, the Quotation shall be deemed to be zero.
- (v) As soon as the valuation process according to (i) to (iv) above has been completed, the Calculation Agent shall determine the Valuation Final Price which shall be equal to the weighted average of the highest Quotation of each Selected Deliverable Obligation (which may, in case of (iv) above, be zero with respect to certain Selected Deliverable Obligations). For this purpose, each such highest Quotation shall be weighted with the relevant Quotation Amount.

If a Selected Deliverable Obligation is an Accreting Obligation, then the Quotation shall be a percentage of the Accreted Amount and "Quotation Amount" shall refer to the Accreted Amount (instead of the principal amount).

2.5 Early Redemption

If an Early Redemption Event as specified in the relevant Final Terms occurs, the Issuer may redeem each Note at its Early Redemption Amount (in each case together with any accrued interest in the case of interest bearing Notes), by giving a notice to the Noteholders.

If the Issuer chooses to redeem the Notes in accordance with this provision, the Issuer shall redeem the Notes in whole (but not in part) on the fifth Business Day after the notice of early redemption has been published (the "**Early Redemption Date**") and shall pay or cause to be paid the Early Redemption Amount in respect of each Note to the Noteholders for value on such Early Redemption Date, subject to any applicable fiscal or other laws or regulations. Payments of any applicable taxes and redemption expenses will be made by the relevant Noteholder and the Issuer shall not have any liability in respect thereof. Following the payment of the Early Redemption Amount, no further amounts will be due to the Noteholders.

2.6 Redemption following a Noteholder Merger Event

Save otherwise provided in the relevant Final Terms, in the event that the Issuer becomes aware that (a) a Noteholder becomes a Successor to any Reference Entity as a result of the application of the provisions of these General Terms

and Conditions, (b) a Noteholder and any Reference Entity become Affiliates or (c) a Noteholder or a Reference Entity consolidates or amalgamates with, or merges into, or transfers all or substantially all its assets to, a Reference Entity or a Noteholder (as applicable), then the Issuer may, but shall not be obliged to, on giving not more than 30 nor less than 15 days' notice to Noteholders (the "**Seller Merger Notice**"), redeem all but not some of the Notes held by the relevant Noteholder at the Early Redemption Amount specified in the Seller Merger Notice.

3 Succession and Substitution Events

3.1 General

If the Calculation Agent becomes aware of a Succession Event in relation to a Reference Entity, it shall determine whether the relevant thresholds set forth in the definition of "Successor" have been met and/or which sovereign/entity (if any) qualifies as Successor; provided that the Calculation Agent will not make such determination if, at such time, either (a) ISDA has publicly announced that it has been requested to determine whether a Succession Event has occurred in relation to such Reference Entity (until such time, if any, as ISDA subsequently publicly announces that the relevant Credit Derivatives Determinations Committee has decided not to resolve such matters) or (b) ISDA has publicly announced that the relevant Credit Derivatives Determinations Committee has resolved that no event that constitutes a Succession Event in relation to such Reference Entity has occurred.

In calculating the percentages used to determine whether the relevant thresholds set forth in the definition of Successor have been met, or which entity qualifies as "Successor" (under paragraph (a) (A) (vi) of the definition of "Successor"), as applicable, the Calculation Agent shall use, with respect to each applicable Relevant Obligation included in such calculation, the amount of the liability with respect to such Relevant Obligation listed in the Best Available Information.

As soon as reasonably practicable after the Calculation Agent or a Credit Derivatives Determinations Committee, as the case may be, has determined that a Succession Event has occurred in respect of a Reference Entity on or after the Succession Event Backstop Date, the Issuer shall give a notice (the "**Succession Event Notice**") to the Noteholders describing the relevant Succession Event and containing a description in reasonable detail of the facts relevant to the determination of whether a Succession Event has occurred and if relevant, the identity of any Successor(s). Subsequently, the Calculation Agent shall (a) replace the affected Reference Entity by such Successor(s) and (b) if necessary and applicable, determine in its discretion a Reference Obligation and the Transaction Type applicable to the relevant Successor Reference Entity. Such replacement shall be effective as of the legally effective date (with respect to a Reference Entity that is not a Sovereign) or the date of the occurrence (with respect to a Reference Entity that is a Sovereign) of the Succession Event.

3.2 Multiple Successors

3.2.1 Single Name Credit Linked Notes

Where, pursuant to sub-section (iii) or (iv) of clause (a)(A) of the definition of "Successor", more than one Successor has been identified, the terms of the Notes will, without the consent of Noteholders, be deemed to be amended as follows: Each Note shall be deemed to be split into n notes where n is the number of identified Successors such that

- (a) each such note shall reference one Successor and the Specified Denomination of each such note is equal to the original Specified Denomination of the Notes *divided by* n ;
- (b) with regard to each such note, the Transaction Type and the Reference Obligation (if any) shall be determined by the Calculation Agent in its discretion provided that the Reference Obligation (if any) shall be a Reference Obligation which has the same subordination as the original Reference Obligation;
- (c) a Credit Event may occur in relation to each Successor; and
- (d) all other terms of the original Notes shall apply *mutatis mutandis* to each of such note.

3.2.2 Basket Credit Linked Notes and Index Credit Linked Notes

Where, pursuant to sub-section (iii) or (iv) of clause (a)(A) of the definition of "Successor", more than one Successor has been identified, the Notes shall reference each such Successor and the Entity Weighting in respect of each Successor shall be equal to the original Entity Weighting of the Reference Entity which is subject to the Succession Event *divided by n* where n is the number of identified Successors. In addition, the Calculation Agent shall, with regard to each Successor, determine the Transaction Type and a Reference Obligation (if any) in its discretion, provided that the Reference Obligation has the same subordination as the original Reference Obligation.

3.3 Substitution Events with respect to a Reference Obligation

If, in the opinion of the Calculation Agent (i) the Reference Obligation is redeemed in whole or (ii) (A) the aggregate amount due under any Reference Obligation has been materially reduced by redemption or otherwise (other than due to any scheduled redemption, amortization or prepayments), (B) the Reference Obligation is an obligation guaranteed by the Reference Entity and, other than due to the existence or occurrence of a Credit Event, the guarantee is no longer a valid and binding obligation of such Reference Entity enforceable in accordance with its terms, or (C) for any other reason, other than due to the existence or occurrence of a Credit Event, any Reference Obligation is no longer an obligation of a Reference Entity, (each a "**Substitution Event**") the Calculation Agent may identify one or more Substitute Reference Obligations by reference to the "Is Preferred" obligation specified on the "REDL" page on Bloomberg for the relevant Reference Entity **or** by reference to such other source or information as the Calculation Agent may in its discretion determine (having regard to market conventions). For the purposes of identification of a Reference Obligation, any change in the Reference Obligation's CUSIP or ISIN or other similar identifier will not, in and of itself, convert such Obligation into a different Obligation.

4 Restructuring and Multiple Credit Event Notices

If the Transaction Type in respect of a Reference Entity which is subject to a Restructuring is "North American Corporate", "European Corporate", "Australia Corporate", "New Zealand Corporate", "Australia Sovereign" or "New Zealand Sovereign" (as specified in the relevant Final Terms) the following applies:

4.1 Single Name Credit Linked Notes

The Issuer may give multiple Credit Event Notices with respect to such Restructuring, each such Credit Event Notice setting forth the portion of the outstanding nominal amount of the Notes to which such Credit Event Notice applies (the "**Exercise Amount**") provided that if the Credit Event Notice does not specify an Exercise Amount, then the outstanding nominal amount of the Notes (such amount, the "**Maximum Exercise Amount**") will be deemed to have been specified as the Exercise Amount.

If the Issuer has delivered a Credit Event Notice that specifies an Exercise Amount that is less than the Maximum Exercise Amount, the conditions shall, with effect from the date such Credit Event Notice is effective, be construed as if the Notes comprised two series of Notes: (a) One which has an aggregate principal amount equal to the Exercise Amount and with respect to which the Credit Event Notice shall be deemed to be given only; and (b) one which has an aggregate principal amount equal to the outstanding Specified Denomination of the Notes prior to such Credit Event Notice minus the Exercise Amount and which will continue to be in effect (and which shall not be deemed to be subject to the Credit Event Notice).

If the Issuer has delivered a Credit Event Notice that specifies the Maximum Exercise Amount, the Notes shall be redeemed in accordance with section II. 2.2 (*Redemption following a Credit Event*).

4.2 Basket Credit Linked Notes and Index Credit Linked Notes

The Issuer may give multiple Credit Event Notices with respect to such Restructuring, each such Credit Event Notice setting forth the portion of the Entity Weighting of the Reference Entity to which such Credit Event Notice applies (the "**Exercise Portion**") provided that if the Credit Event Notice does not specify an Exercise Portion, then 100 per cent. of the Entity Weighting of the affected Reference Entity (such portion, the "**Maximum Exercise Portion**") will be deemed to have been specified as the Exercise Portion.

If the Issuer has delivered a Credit Event Notice that specifies an Exercise Portion that is less than the Maximum Exercise Portion, the Notes shall be deemed to reference the relevant Reference Entity twice: (a) Once with a weight equal to the original Entity Weighting of the affected Reference Entity multiplied by the Exercise Portion (the "**Affected Weight**") and the Credit Event Notice shall be deemed to be given in respect of this Reference Entity and Affected Weight only; and (b) once with a weight equal to the original Entity Weighting *less* the Affected Weight (and the Reference Entity in respect of this resulting Entity Weighting shall not be deemed to be subject to the Credit Event Notice). Consequently, the partial redemption shall occur only in respect of the Affected Weight.

If the Issuer has delivered a Credit Event Notice that specifies the Maximum Exercise Portion, the Notes shall be partially redeemed in accordance with section II. 2.2 (*Redemption following a Credit Event*).

5 Additional Provisions relating to Monoline Reference Entities

If "Additional Provisions Monoline Insurer" is specified as applicable in the description of the Underlying in the relevant Final Terms

- (a) the definition of "Obligation", "Deliverable Obligation" and "Substitute Reference Obligation" shall include obligations of the Reference Entity as provider of a Qualifying Policy; and
- (b) references to a guarantor shall include the monoline insurer and/or references to a guarantee shall include a Qualifying Policy and all other terms and definitions (including, without limitation, Successor, Substitute Reference Obligation and Restructuring) herein shall be construed accordingly.

"Qualifying Policy" means a financial guaranty insurance policy or similar financial guarantee pursuant to which a Reference Entity irrevocably guarantees or insures all Instrument Payments (as defined below) of an instrument that constitutes Borrowed Money (the **"Insured Instrument"**) for which another party (including a special purpose entity or trust) is the obligor (the **"Insured Obligor"**). Qualifying Policies shall exclude any arrangement (i) structured as a surety bond, letter of credit or equivalent legal arrangement or (ii) pursuant to the express contractual terms of which the payment obligations of the Reference Entity can be discharged or reduced as a result of the occurrence or non-occurrence of an event or circumstance (other than the payment of Instrument Payments). The benefit of a Qualifying Policy must be capable of being delivered together with the delivery of the Insured Instrument (whether through sale or otherwise).

"Instrument Payments" means (A) in the case of any Insured Instrument that is in the form of a pass-through certificate or similar funded beneficial interest, (x) the specified periodic distributions in respect of interest or other return on the unreimbursed principal investment on or prior to the ultimate distribution of unreimbursed principal investment and (y) the ultimate distribution of the unreimbursed principal investment on or prior to a specified date and (B) in the case of any other Insured Instrument, the scheduled payments of principal and interest, in the case of both (A) and (B) (1) determined without regard to limited recourse or reduction provisions of the type described in paragraph (d) below and (2) excluding sums in respect of default interest, indemnities, tax gross-ups, make-whole amounts, early redemption premiums and other similar amounts (whether or not guaranteed or insured by the Qualifying Policy).

III. General Terms and Conditions

1 Form of Securities

The Notes may be issued in the form of bearer notes represented by one or more global notes (*Globalurkunden*) pursuant to article 973b CO or in uncertificated form as uncertificated securities (*Wertrechte*) pursuant to article 973c CO, as specified in the relevant Final Terms. Global notes will be deposited with and uncertificated securities will be entered into the main register (*Hauptregister*) of SIX SIS in accordance with the FISA. Once deposited or registered with SIX SIS and booked into the accounts of one or more participants of SIX SIS, the global notes or the uncertificated securities will constitute intermediated securities (*Bucheffekten*) in accordance with the provisions of the FISA. The Issuer reserves the right to select any other clearing system or any other common depositary, including UBS AG, eligible for the role of an intermediary pursuant to article 4 FISA, for the purpose of depositing global notes or registering uncertificated securities. As long as the Notes are intermediated securities, the Notes may only be transferred and otherwise disposed of in accordance with the provisions of the FISA (*i.e.* by entry of the transferred Notes in a securities account of the transferee) and the holders of the Notes will be the persons holding the Notes in a securities account in their own name and for their own account.

The Noteholders shall at no time have the right to effect or demand the conversion of uncertificated securities into, or the delivery of a global note or definitive notes (*Wertpapiere*). The Issuer may convert global notes or definitive notes into uncertificated securities and *vice versa* at any time and without the consent of the holders of the respective Notes.

No physical delivery of any Notes shall be made unless and until such Notes have been printed. In case of Notes in the form of uncertificated securities registered with SIX SIS or any other clearing system, such Notes may only be printed (in whole but not in part) if that clearing system goes out of business without a successor. In case of Notes issued in the form of bearer notes, such Notes may only be printed (in whole but not in part) if the Paying Agent determines that the printing of definitive notes is necessary or useful. Should the Paying Agent so determine, it shall provide for the printing of definitive notes without cost to the holders thereof.

2 Status of the Notes / Classification

Unless otherwise stated in the relevant Final Terms, the obligations under the Notes constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer ranking *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer without any preference among themselves and without any preference one above the other by reason of priority of date of issue, currency of payment or otherwise, except for obligations as may be preferred by mandatory provisions of law.

The Notes do not represent a participation in any of the collective investment schemes pursuant to article 7 ss of the CISA and thus are not subject to the supervision of the FINMA. Therefore, Noteholders are not eligible for the specific investor protection under the CISA. Furthermore, the Notes do not benefit from any depositor protection under article 37b of the Banking Act or other forms of deposit insurance under any other laws as might be applicable to the Notes.

3 Payments

3.1 Payment of Principal

Payments of principal in respect of the Notes shall be made, subject to applicable fiscal and other laws and regulations, in the Settlement Currency and to the Clearing System or the relevant intermediary or to its order for

credit to the accounts of the relevant account holders of the Clearing System or the relevant intermediary in accordance with the FISA and the rules and regulations of SIX SIS, whereas the reference to "principal" shall include, as applicable, the Redemption Amount or the Early Redemption Amount of the Notes and any premium and any other amounts which may be payable under or in respect of the Notes.

3.2 Payment of Interest

Payments of interest on Notes shall be made, subject to applicable fiscal and other laws and regulations, in the Settlement Currency and to the Clearing System or the relevant intermediary or to its order for credit to the accounts of the relevant account holders of the Clearing System or the relevant intermediary in accordance with the FISA and the rules and regulations of SIX SIS.

3.3 Discharge

The Issuer shall be discharged by payment to, or to the order of, the Clearing System or the relevant intermediary.

4 Adjustments in Accordance with Business Day Convention

If a date set out in the Final Terms (including, without limitation, the Scheduled Maturity Date and each Scheduled Interest Payment Date) falls on a day which is not a Business Day then (unless otherwise specified and subject to section II. 1.3.1 (*Day Count Fraction and Business Day Convention*)):

- (a) if the Business Day Convention specified in the relevant Final Terms is "Following" or "Following Business Day Convention", such date will be the first following day that is a Business Day;
- (b) if the Business Day Convention specified in the relevant Final Terms is "Modified Following" or "Modified Following Business Day Convention", such date will be the first following day that is a Business Day unless that day falls in the next calendar month, in which case such date will be the first preceding day that is a Business Day; and
- (c) if the Business Day Convention specified in the relevant Final Terms is "Preceding" or "Preceding Business Day Convention", such date will be the first preceding day that is a Business Day.

5 Price Source Disruption Event

In case a rate, quote, price or other information from a source that is required to make a determination in respect of the Notes is not observable due to the fact that one or more source(s) are unavailable by reason of an unscheduled bank closure, IT system disruption or the occurrence of any other disruption event (each such event, a "**Price Source Disruption Event**"), the Calculation Agent may, use such other source(s) that are under the then prevailing circumstances available and/or postpone the determination in question until such time as the relevant information becomes available again (but for not more than 20 Business Days following the occurrence of such Price Source Disruption Event).

In case of a postponement as described above, any payments under the Notes dependent on the relevant information may be suspended until one Business Day following the date on which the relevant information becomes available again. If on the 20th Business Day following the occurrence of the Price Source Disruption Event the relevant information is not available (because neither the original nor an alternative source exists or is accessible), the Calculation Agent shall determine the relevant information in its reasonable discretion. If a Price Disruption Event leads to a postponement of a scheduled payment date, no default interest shall become payable by the Issuer and such postponement shall not constitute an event of default in respect of the Issuer.

If the methodology, content, composition, constitution or administrator of a rate, quote, price or other information that is required to make a determination in respect of the Notes changes, the Notes shall be deemed to reference such rate, quote, price or other information as the Calculation Agent reasonably determines as successor of or alternative for such rate, quote, price or other information and which is commonly used by market participants as successor or alternative rate, quote, price or other information (including, without limitation, any changes in respect of an applicable Reference Rate).

6 Settlement Disruption Event

If the Issuer or the Paying Agent reasonably determines that a Settlement Disruption Event has occurred and is continuing on a date on which a payment or delivery is due, such date shall be postponed to the first Business Day following the day on which the Settlement Disruption Event ceases to continue. For the avoidance of doubt, any such postponement of payment or delivery due to a Settlement Disruption Event shall not constitute a default by the Issuer and the Noteholders shall not be entitled to any additional payment, whether of interest or otherwise, on the Notes due to such postponement of payment or delivery. Where a Settlement Disruption Event affects some but not all of the relevant assets that are due to be delivered or payments that are due to be made, the payments or delivery of the assets not affected by the Settlement Disruption Event will be unadjusted and the due date with respect to such assets or payments shall be the originally designated due date.

Notwithstanding the above, following the occurrence of a Settlement Disruption Event, the Issuer may elect in its sole and absolute discretion but in accordance with established market practice to satisfy and discharge its obligations in respect of the relevant Notes in such way as it is reasonably practicable in lieu of the scheduled settlement.

Upon the occurrence of a Settlement Disruption Event, the Paying Agent shall give a notice to the Noteholders stating that a Settlement Disruption Event has occurred and providing details thereof. Failure of the Paying Agent to provide the Noteholders with such notice shall not affect the validity of the actions described above.

All determinations made by the Issuer or the Paying Agent pursuant to this section shall be conclusive and binding on the Noteholders and the Issuer. The Noteholders will not be entitled to any compensation from the Issuer or the Paying Agent for any loss suffered as a result of the occurrence of a Settlement Disruption Event.

7 Listing

The listing, if any, of the Notes, will be specified in the relevant Final Terms and will be applied for on the Relevant Stock Exchange. No representation can and will be given by the Issuer or any Agent that the envisaged listing will be successful. The Issuer will use reasonable endeavours to maintain such listing on the Relevant Stock Exchange during the term of the Notes.

8 Taxation

Each Noteholder shall assume and be responsible for any and all taxes, duties, fees and charges imposed on or levied against (or which could be imposed on or levied against) such Noteholder in any jurisdiction or by any governmental or regulatory authority. The Issuer and the Calculation Agent are not obliged to gross up any payments in respect of the Notes and shall have the right, but not the obligation, to withhold or deduct from any amounts payable to the Noteholders such amount as is necessary for the payment of any such taxes, duties, fees and/or charges. In case any governmental or regulatory authority imposes on the Issuer the obligation to pay any such taxes, duties, fees and/or charges, the Noteholder shall promptly reimburse the Issuer.

Noteholders should inform themselves with regard to any tax consequences particular to their circumstances arising in any relevant jurisdiction (including any jurisdiction in which they are resident or domiciled for tax purposes in connection with the acquisition, ownership, redemption or disposal by them of any Notes).

9 Events of Default

If any of the following events (each an "**Event of Default**") occurs, any Noteholder may by written notice to the Issuer declare the Notes held by such Noteholder to be forthwith due and payable, whereupon the Early Redemption Amount of such Note shall become due and payable on the fifth Business Day after such notice (the "**Default Redemption Date**"), unless such Event of Default has been remedied prior to the receipt of such notice by the Issuer:

- (a) there is a default for more than 30 days in the payment of any principal or interest due in respect of the Notes;
or
- (b) any order is made by any competent court or other authority in any jurisdiction or any resolution is passed by the Issuer for (i) the dissolution or winding-up of the Issuer, or (ii) for the appointment of a liquidator, receiver or administrator of the Issuer or of all or a substantial part of the assets of the Issuer, or (iii) with analogous effect for the Issuer, it being understood that anything in connection with a solvent reorganisation, reconstruction, amalgamation or merger shall not constitute an event of default; or
- (c) the Issuer is generally unable or admits in writing its general inability to pay its debts as they fall due or otherwise acknowledges its insolvency,

it being understood, however, that any postponement or other action taken pursuant to and in accordance with section III. 5 (*Price Source Disruption Event*) or section III. 6 (*Settlement Disruption Event*) does not constitute an Event of Default pursuant to this section III. 9.

10 Prescription

In accordance with Swiss law, claims for payments in connection with the Notes will be prescribed and become void 10 years after the date on which the relevant payment first becomes due and payable, except for payments of interest which will be prescribed and become void 5 years after the relevant interest payment first becomes due and payable.

11 Agents

11.1 Appointment

The Principal Paying Agent and the Calculation Agent and their offices (which can be substituted with other offices) are one of the following, as specified in the relevant Final Terms:

Principal Paying Agent:

UBS AG
Bahnhofstrasse 45
CH-8001 Zurich/
Aeschenvorstadt 1
CH-4051 Basel

or

UBS Limited London
c/o UBS Deutschland AG
Stephanstrasse 14-16
D-60313 Frankfurt am Main

Calculation Agent:

UBS AG
Bahnhofstrasse 45
CH-8001 Zurich/
Aeschenvorstadt 1
CH-4051 Basel

or

UBS AG, acting through UBS AG,
Jersey Branch
24 Union Street
St. Helier JE2 3RF

or

UBS AG, acting through UBS AG,
London Branch
1 Finsbury Avenue
GB-London EC2M 2PP

The Issuer reserves the right to appoint any further Agents (including, without limitation, any third party) as specified in the relevant Final Terms.

11.2 Variation or Termination of Appointment

The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional and/or other Agents provided that the Issuer shall (a) at all times maintain a Calculation Agent with a specified office located in such place as required by the rules of the Relevant Stock Exchange or other applicable rules (if any) and (b) so long as the Notes are listed on the regulated market of the Relevant Stock Exchange maintain a Paying Agent with a specified office in such place as may be required by the rules of the Relevant Stock Exchange. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 15 nor more than 45 days' prior notice thereof has been given to the Noteholders.

11.3 Agent of the Issuer

Any Agent acts solely as the agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for any Noteholder.

12 Appointment of Nominee

The Issuer may appoint a Nominee as specified in the relevant Final Terms. In case of such an appointment, all actions to be taken by the Issuer or acceptances to be made on behalf of the Issuer according to the relevant Final Terms and this General Terms and Conditions may be taken or made by the Nominee and references to "Issuer" in the Product Documentation shall be construed accordingly.

13 Substitution of the Issuer

The Issuer (reference to which shall always include any previous substitute debtor) may and the Noteholders hereby irrevocably agree in advance that the Issuer may without any further prior consent of any Noteholder at any time, substitute for itself as the principal debtor in respect of the Notes (a) any company (incorporated in any country in the world) controlling, controlled by or under common control with, the Issuer; (b) any another company with which it consolidates, into which it merges or to which it sells, leases, transfers or conveys all or substantially all its property; and (c) any branch of such company referred to in (a) and (b) (any such company or branch, a "**Substitute Debtor**"), provided that

- (a) the Substitute Debtor shall assume all obligations that the Issuer owes to the Noteholders under or in relation to the Notes and be bound by the relevant Final Terms and the General Terms and Conditions as fully as if the Substitute Debtor had been named in the Product Documentation as the principal debtor in respect of the Notes in place of the Issuer; and
- (b) (i) such Substitute Debtor shall at all times after such substitution have a credit rating equivalent to or better than the Issuer or (ii) the Issuer irrevocably and unconditionally guarantees in favour of each Noteholder the payment of all sums payable by the Substitute Debtor as principal debtor.

As of the effective date of such substitution, the Substitute Debtor shall be deemed to be named in the Product Documentation as the principal debtor in place of the Issuer and the Product Documentation shall thereupon be deemed to be amended to give effect to the substitution including that the relevant jurisdiction according to section III. 18 (*Governing Law and Jurisdiction*) shall be the jurisdiction of incorporation of the Substitute Debtor.

Any substitution shall as soon as reasonably possible be notified to the Noteholders and, if applicable, to the Relevant Stock Exchange and/or the rules of the Relevant Stock Exchange and to any other person or authority as required by applicable laws or regulations.

In connection with any exercise by the Issuer of the right of substitution, the Issuer shall not be responsible or liable for any consequences suffered by individual Noteholders as a result of the exercise of such right and, accordingly, no Noteholder shall be entitled to claim from the Issuer any indemnification or repayment with respect of any consequence whether direct or indirect.

For the purposes of this section III. 13, the term '**control**' means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether by contract or through the ownership, directly or indirectly, of voting shares in such company which, in the aggregate, entitle the holder thereof to elect a majority of its directors, and includes any company in like relationship to such first-mentioned company, and for this purpose '**voting shares**' means shares in the capital of a company having under ordinary circumstances the right to elect the directors thereof, and '**controlling**', '**controlled**' and '**under common control**' shall be construed accordingly.

14 Determinations, Calculations, Rounding and Time

Unless otherwise specified in the relevant Final Terms or these General Terms and Conditions, any determination, calculation, quotation or decision made by the Calculation Agent shall be made in its discretion having regard to standard market practices, provided such determination, calculation, quotation or decision is made in good faith and in a commercially reasonable manner. All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained by the Calculation Agent for the purposes of this General Terms and Conditions or the relevant Final Terms shall (in the absence of proven or manifest error) be final and binding on the Issuer, the Paying Agent and the Noteholders.

None of the Calculation Agent, the Issuer or the Paying Agent shall have any responsibility in respect of any error or omission or subsequent correction made in the calculation or publication of any amount in relation to the Notes, whether caused by negligence or otherwise (other than gross negligence or willful misconduct). Further, the Noteholders shall not be entitled to make any claim against the Issuer, its Affiliates, the Lead Manager, or the Calculation Agent in the case where any third party has made any misstatement as to a Reference Entity, Reference Obligation (if any), Reference Rate (if any) or other interest component.

For the purposes of any calculations required pursuant to the relevant Final Terms or these General Terms and Conditions, (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 of a percentage point being rounded up), (y) all figures shall be rounded to seven significant figures (provided that if the eighth significant figure is a 5 or greater, the seventh significant shall be rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes "unit" means the lowest amount of such currency that is available as legal tender in the country/countries of such currency.

Unless otherwise specified in the relevant Final Terms or these General Terms and Conditions, references to the occurrence of an event, a date or a time shall be determined by reference to Greenwich Mean Time.

15 Further Issuances and Purchases of Notes by the Issuer

The Issuer may from time to time without the consent of the Noteholders create or issue further tranches of notes, which shall be fungible with the Notes (i.e., identical with respect to the terms and conditions (other than the Issue Price, the Issue Date, the Interest Commencement Date (if applicable) and the first Scheduled Interest Payment Date (if applicable))) so as to be consolidated and form a single series with such Notes, and references to "Notes" shall be construed accordingly. The further tranche of notes may have a Security Number which is different from the Security Number for the Notes.

The Issuer and any of its subsidiaries or other Affiliates may at any time purchase Notes at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Any Notes so purchased may be held, reissued, resold or cancelled, all at the option of the Issuer.

All Notes redeemed in full shall be cancelled forthwith and may not be reissued or resold.

16 Notices

16.1 Notices to the Issuer

Unless otherwise specified in the relevant Final Terms, notice may be given to the Issuer by delivering such notice in writing to UBS AG, Bahnhofstrasse 45, P.O. Box, CH-8098 Zurich or such other address as may be notified to the Noteholders in accordance with this section III. 16.

16.2 Notices to the Noteholders

All notices in connection with the Notes shall be validly given by publication in electronic media such as Reuters and/or Investdata. In addition, any changes with regard to the terms of the Notes shall be published on the internet on website <http://www.ubs.com/keyinvest> (or any successor website thereto). Any notice so given will be deemed to have been validly given on the date of such publication.

The Issuer may, in lieu of a publication pursuant to the paragraph above, deliver the relevant notices to the relevant Clearing System(s), for communication by the Clearing System(s) to the Noteholders, provided that, so long as any Notes are listed on the Relevant Stock Exchange, the rules of the Relevant Stock Exchange permit such form of notice. Any such notice shall be deemed to have been given to the Noteholders on the day on which the said notice was given to the Clearing System(s).

17 Severability and Amendments

In the event any term or condition within these General Terms and Conditions or the relevant Final Terms is or becomes illegal, invalid or unenforceable in any respect under any law and jurisdiction, neither the legality, validity or enforceability of the remaining terms and conditions nor the legality, validity or enforceability of such term or condition under the law of any other jurisdiction will in any way be affected or impaired.

The Issuer shall be entitled to modify or amend the relevant Final Terms or these General Terms and Conditions from time to time without the consent of the Noteholders in such manner as the Issuer deems necessary, provided that the modifications or amendments

- (a) are of a formal, minor or technical nature; or
- (b) are made to correct or supplement any defective provisions of the relevant Final Terms or these General Terms and Conditions; or

- (c) are made to cure any uncertainty or ambiguity; or
- (d) are made to cure a manifest or proven error; or
- (e) are made to correct an error or omission such that, in the absence of such correction, the relevant Final Terms or these General Terms and Conditions would not otherwise represent the intended terms of the Notes on which the Notes were sold and have since traded; or
- (f) will not materially and adversely affect the interests of the Noteholders.

Notwithstanding the above, the Issuer shall at all times be entitled to amend any terms or conditions where, and to the extent, the amendment is necessary as a consequence of legislation, decisions by courts of law, or decisions taken by governmental authorities in Switzerland or any other jurisdiction.

Any modification or amendment of the relevant Final Terms or these General Terms and Conditions shall take effect in accordance with its terms and be binding on the Noteholders, and shall be notified to the Noteholders (provided that any failure to give such notice, or non-receipt thereof, shall not affect the validity of such modification or amendment).

18 Governing Law and Jurisdiction

The Notes shall be subject to, governed by and construed in accordance with **Swiss law**.

The exclusive place of jurisdiction for all disputes affecting the Notes and the rights and obligations attached thereto shall be **Zurich 1, Switzerland**. In addition, Zurich 1, Switzerland, shall be the exclusive place of jurisdiction for the declaration of the annulment of the Notes, if printed, and their subsequent replacement.

IV. Definitions

"Accelerated or Matured" means an obligation under which the total amount owed, whether at maturity, by reason of acceleration, upon termination or otherwise (other than amounts in respect of default interest, indemnities, tax gross-ups and other similar amounts), is, or on or prior to the Valuation Date or Physical Redemption Date (as the case may be) will be, due and payable in full in accordance with the terms of such obligation, or would have been but for, and without regard to, any limitation imposed under any applicable insolvency laws. If "Additional Provisions Monoline Insurer" is specified as applicable in the description of the Underlying in the relevant Final Terms, it shall not be necessary for the Qualifying Policy or the Insured Instrument to satisfy the Deliverable Obligation Characteristics of "Accelerated or Matured".

"Accreted Amount" means, with respect to an Accreting Obligation, an amount equal to (a) the sum of (i) the original issue price of such obligation and (ii) the portion of the amount payable at maturity that has accreted in accordance with the terms of the obligation (or as otherwise described below), less (b) any cash payments made by the obligor thereunder that, under the terms of such obligation, reduce the amount payable at maturity (unless such cash payments have been accounted for in clause (a)(ii) above), in each case calculated as of the earlier of (A) the date on which any event occurs that has the effect of fixing the amount of a claim in respect of principal and (B) the Physical Redemption Date or applicable Valuation Date, as the case may be. Such Accreted Amount shall exclude any accrued and unpaid periodic cash interest payments (as determined by the Calculation Agent). If an Accreting Obligation is expressed to accrete pursuant to a straight-line method or if such obligation's yield to maturity is not specified in, nor implied from, the terms of such obligation, then, for purposes of (a)(ii) above, the Accreted Amount shall be calculated using a rate equal to the yield to maturity of such obligation. Such yield shall be determined on a semi-annual bond equivalent basis using the original issue price of such obligation and the amount payable at the scheduled maturity of such obligation, and shall be determined as of the earlier of (A) the date on which any event occurs that has the effect of fixing the amount of a claim in respect of principal and (B) the Physical Redemption Date or applicable Valuation Date, as the case may be. The Accreted Amount shall exclude, in the case of an Exchangeable Obligation, any amount that may be payable under the terms of such obligation in respect of the value of the Equity Securities for which such obligation is exchangeable.

"Accreting Obligation" means any obligation (including, without limitation, a Convertible Obligation or an Exchangeable Obligation), the terms of which expressly provide for an amount payable upon acceleration equal to the original issue price (whether or not equal to the face amount thereof) plus an additional amount or amounts (on account of original issue discount or other accruals of interest or principal not payable on a periodic basis) that will or may accrete, whether or not (a) payment of such additional amounts is subject to a contingency or determined by reference to a formula or index, or (b) periodic cash interest is also payable. Outstanding principal balance with respect to any Accreting Obligation means the Accreted Amount thereof.

"Affected Weight" has the meaning ascribed to it in section II. 4 (*Restructuring and Multiple Credit Event Notices*).

"Affiliate" means, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls, directly or indirectly, the person or any entity directly or indirectly under common control with the person. For this purpose "control" of any entity or person means ownership of a majority of the voting power of the entity or person.

"Agent(s)" means the Calculation Agent, the Paying Agent or any other agent appointed by the Issuer as specified in the relevant Final Terms, or all of them together.

"Assignable Loan" means a Loan that is capable of being assigned or novated to at a minimum, commercial banks or financial institutions (irrespective of their jurisdiction or organisation) that are not then a lender or a member of the relevant lending syndicate, without the consent of the relevant Reference Entity or the guarantor, if any, of such Loan (or the consent of the applicable borrower if a Reference Entity is guaranteeing such Loan) or any agent. If "Additional Provisions Monoline Insurer" is specified as applicable in the description of the Underlying in the relevant

Final Terms (i) references in this definition to "the guarantor" and "guaranteeing" shall be deemed to include the insurer and insuring, respectively and (ii) if the benefit of the Qualifying Policy is not transferred as part of any transfer of the Insured Instrument, the Qualifying Policy must be transferable at least to the same extent as the Insured Instrument.

"Auction Final Price" means the "Final Price" determined by ISDA for the settlement of credit derivatives transactions in an auction process in accordance with certain rules as further outlined on ISDA's webpage <http://www.isda.org/credit/> (or any successor website thereto). The Auction Final Price is generally published on <http://creditfixings.com/CreditEventAuctions> (see also section II. 2.4.1 (*Determination of the Final Price by Reference to the Auction Final Price determined by ISDA*)).

"Banking Act" means the Swiss Federal Law on Banks and Savings Banks, as amended from time to time.

"Banking Day" means, in respect of any city, any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in that city.

"Bankruptcy" means, with respect to a Reference Entity, the Reference Entity (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (b) becomes insolvent or is unable to pay its debts or fails or admits in writing in a judicial, regulatory or administrative proceeding or filing its inability generally to pay its debts as they become due; (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within 30 calendar days of the institution or presentation thereof; (e) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 calendar days thereafter; or (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (a) to (g) (inclusive).

"Best Available Information" means (i) in the case of a Reference Entity which files information with its primary securities regulators or primary stock exchange that includes unconsolidated, pro forma financial information which assumes that the relevant Succession Event has occurred or which provides such information to its shareholders, creditors or other persons whose approval of the Succession Event is required, that unconsolidated, pro forma financial information and, if provided subsequently to the provision of unconsolidated, pro forma financial information but before the Calculation Agent makes its determination for the purposes of these provisions, other relevant information that is contained in any written communication provided by the Reference Entity to its primary securities regulators, primary stock exchange, shareholders, creditors or other persons whose approval of the Succession Event is required; or (ii) in the case of a Reference Entity which does not file with its primary securities regulators or primary stock exchange, and which does not provide to shareholders, creditors or other persons whose approval of the Succession Event is required, the information contemplated in (i) above, the best publicly available information at the disposal of the Calculation Agent to determine Successors. Information which is made available more than 14 calendar days after the legally effective date of the Succession Event shall not constitute Best Available Information.

"Bloomberg" means Bloomberg Limited Partnership (and any successor thereto).

"Bond" means any obligation of a type included in the "Borrowed Money" Obligation Category that is in the form of, or represented by, a bond, note (other than notes delivered pursuant to Loans), certificated debt security or other debt security but shall not include any other type of Borrowed Money. If "Additional Provisions Monoline Insurer" is specified as applicable in the description of the Underlying in relevant Final Terms, "Bond" shall be deemed to include distributions payable under an Insured Instrument in the form of a pass-through certificate or similar funded beneficial interest and the Deliverable Obligation Category Bond shall be deemed to include such an Insured Instrument and the term "obligation" shall be construed accordingly.

"Bond or Loan" means any obligation that is either a Bond or a Loan.

"Borrowed Money" means any obligation (excluding an obligation under a revolving credit arrangement for which there are no outstanding, unpaid drawings in respect of principal) for the payment or repayment of borrowed money (which term shall include, without limitation, deposits and reimbursement obligations arising from drawings pursuant to letters of credit). If "Additional Provisions Monoline Insurer" is specified as applicable in the description of the Underlying in the relevant Final Terms, "Borrowed Money" shall be deemed to include distributions payable under an Insured Instrument in the form of a pass-through certificate or similar funded beneficial interest and the term "obligation" shall be construed accordingly.

"Breakage Costs" means the amount of losses or costs of the Issuer that are or would be incurred following the occurrence of

- (a) an Early Redemption Event in terminating any hedging arrangement or in replacing or providing the Issuer the economic equivalent of the material terms that the Issuer would have had under the Notes but for the occurrence of the Early Redemption Event; or
- (b) a Credit Event in terminating any hedging arrangement or closing (by way of entering into an offsetting transaction) any hedging position entered into in connection with the issuance of the Notes. If the Issuer does not terminate any such hedging transaction or does not close any such hedging position by entering in to any such offsetting transaction(s), the amount of Breakage Costs may be based on the amount the Issuer would have to pay for entering into (in case of termination) any such replacement transaction or (in case of closing any hedging position by way of entering into an offsetting transaction) any such offsetting transaction(s) on the basis of then prevailing market prices (including any costs and expenses).

Without limitation, Breakage Costs shall include: (a)(i) the aggregate costs incurred by the Issuer upon terminating, due to the occurrence of the Credit Event, any hedging arrangement entered into in connection with the issuance of the Notes, including but not limited to, any unwind fees or charges incurred by the Issuer upon termination of any internal interest rate swap, entered into by the Issuer and UBS AG, London Branch, acting as swap counterparty as if UBS AG, London Branch was an external third party swap counterparty (the "Relevant Swap"); (ii) any accrued and unpaid payments due to the Issuer in respect of the Relevant Swap; and (b)(i) the costs, charges, fees, howsoever described, incurred by the Issuer upon terminating any of its term funding transactions that were entered into in connection with the issuance of the Notes, including, but not limited to, any funding transaction entered into, by the Issuer with UBS AG, London Branch acting as deposit provider, as if UBS AG, London Branch was an external third party deposit provider (the "Relevant Funding"); and (ii) any accrued and unpaid payments due to the Issuer in respect of the Relevant Funding. The Breakage Costs per Note shall be equal to the aggregate Breakage Costs divided by the number of Notes to be redeemed.

"Business Day" means in connection with any payment procedure (a) a day on which foreign exchange markets settle payments in the Settlement Currency; (b) if "TARGET2", "TARGET" or "Target Settlement Date" is specified in the relevant Final Terms, any days on which TARGET2 (the Trans-European Automated Real-time Gross Settlement Express Transfer System 2) is open; and (c) any other day (other than Saturday and Sunday) on which commercial banks and foreign exchange markets are generally open to settle payments in the place or places as specified in the relevant Final Terms as a "Business Day".

"Business Day Convention" means the business day convention specified in the relevant Final Terms and described in section III. 4 (*Adjustments in Accordance with Business Day Convention*).

"Calculation Agent" means the entity specified as calculation agent in the relevant Final Terms.

"Change in Law" means that, on or after the Issue Date of the Notes (a) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or (b) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), the Issuer determines in good faith that (i) it has become illegal to hold, acquire or dispose of the underlying relating to the Notes and/or to enter into any hedging transactions that the Issuer would enter into in the normal course of business, or (ii) it will incur a materially increased cost in performing its obligations under the Notes (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on its tax position).

"Clearing System(s)" means the clearing system(s) specified in the relevant Final Terms.

"Clearstream Frankfurt" means Clearstream Banking AG, Frankfurt am Main (and any successor thereto).

"Clearstream Luxembourg" means Clearstream Banking *société anonyme*, Luxembourg (and any successor thereto).

"CISA" means the Swiss Federal Act on Collective Investment Schemes, as amended from time to time.

"CO" means the Swiss Federal Code of Obligations, as amended from time to time.

"Consent Required Loan" means a Loan that is capable of being assigned or novated with the consent of the relevant Reference Entity or the guarantor, if any, of such Loan (or the consent of the relevant borrower if a Reference Entity is guaranteeing such Loan) or any agent. If "Additional Provisions Monoline Insurer" is specified as applicable in the description of the Underlying in the relevant Final Terms (i) references in this definition to "the guarantor" and "guaranteeing" shall be deemed to include the insurer and insuring, respectively and (ii) if the benefit of the Qualifying Policy is not transferred as part of any transfer of the Insured Instrument, the Qualifying Policy must be transferable at least to the same extent as the Insured Instrument.

"Convertible Obligation" means any obligation that is convertible, in whole or in part, into Equity Securities solely at the option of holders of such obligation or a trustee or similar agent acting for the benefit only of holders of such obligation (or the cash equivalent thereof, whether the cash settlement option is that of the issuer or of (or for the benefit of) the holders of such obligation).

"Credit Derivatives Determinations Committees" means the committees established by ISDA for the purposes of resolving certain matters in relation to credit derivatives transactions including, without limitation, whether and when a Credit Event has occurred. If ISDA ceases to establish such committees or ISDA is abolished, split up or otherwise replaced, the Credit Derivatives Determinations Committees shall be such committees that are commonly referred to by dealers in credit derivatives transactions and that make the same or materially similar determinations as the committees established by ISDA (but eventually on different terms and rules).

"Credit Derivatives Determinations Committees Rules" means the rules for establishment and functioning of the Determinations Committees published by ISDA from time to time.

"Credit Event" means one or more of the Credit Events applicable to the Reference Entity and Transaction Type (as specified in the relevant Final Terms) pursuant to the Settlement Matrix. If the occurrence of an event would otherwise constitute a Credit Event, such occurrence will constitute a Credit Event whether or not such occurrence arises directly or indirectly from, or is subject to a defence based upon: (a) any lack or alleged lack of authority or capacity of a Reference Entity to enter into any Obligation or, as applicable, an Underlying Obligor to enter into any Underlying Obligation, (b) any actual or alleged unenforceability, illegality, impossibility or invalidity with respect to any Obligation, or, as applicable, any Underlying Obligation, howsoever described, (c) any applicable law, order,

regulation, decree or notice, howsoever described, or the promulgation of, or any change in, the interpretation by any court, tribunal, regulatory authority or similar administrative or judicial body with competent or apparent jurisdiction of any applicable law, order, regulation, decree or notice, howsoever described, or (d) the imposition of, or any change in any exchange controls, capital restrictions or any other similar restrictions imposed by any monetary or other authority, howsoever described.

"Credit Event Backstop Date" means for the purposes of whether any event constitutes a Credit Event (or with respect to Repudiation/Moratorium, the event described in part (ii) of the definition of Repudiation/Moratorium), the earlier of (A) the Trade Date and (B) the date that is 60 calendar days prior to the Credit Event Resolution Request Date or, if no request was made to the Credit Derivatives Determinations Committee to resolve whether such event constitutes a Credit Event (or a request was made but the Credit Derivatives Determinations Committee has resolved not to determine the matter), the date that is 60 calendar days prior to the date on which a Credit Event Notice is delivered by the Issuer to the Noteholders. The Credit Event Backstop Date shall not be subject to adjustment in accordance with any Business Day Convention. In the relevant Final Terms, the Issuer may elect not to apply the relevant look-back period to a date that falls prior to the Trade Date.

"Credit Event Notice" means a notice given by the Issuer to the Noteholders in writing of the determination by the Calculation Agent that a Credit Event has occurred within the Reference Period and that the Notes will be redeemed or partially redeemed, as the case may be, in accordance with section II. 2.2 (*Redemption following a Credit Event*). The Credit Event Notice shall describe the type of the Credit Event and specify the date the Credit Event has occurred (either by reference to the relevant announcement of ISDA or, if there is no announcement of ISDA, to Publicly Available Information). Unless the Credit Event was determined by a Credit Derivatives Determinations Committee, it shall include Publicly Available Information from at least two different sources describing the occurrence of the Credit Event.

"Credit Event Resolution Request Date" means, with respect to a notice to ISDA (delivered in accordance with ISDA's applicable rules) requesting that a Credit Derivatives Determinations Committee be convened to resolve:

- (a) whether an event that constitutes a Credit Event has occurred with respect to the relevant Reference Entity or Obligation thereof; and
- (b) if the relevant Credit Derivatives Determinations Committee resolves that such event has occurred, the date of the occurrence of such event,

the date, as publicly announced by ISDA, that the relevant Credit Derivatives Determinations Committee resolves to be the first date on which such notice was effective and on which the relevant Credit Derivatives Determinations Committee was in possession (in accordance with ISDA's applicable rules) of Publicly Available Information with respect to the resolutions referred to in items (a) and (b) above.

"Credit Linkage End Date" means the latest of

- (a) the Scheduled Maturity Date;
- (b) the Grace Period Extension Date if (i) the Transaction Type in respect of the relevant Reference Entity specifies Grace Period Extension as applicable, (ii) the relevant Credit Event is a Failure to Pay that occurs after the Scheduled Maturity Date and (iii) the Potential Failure to Pay with respect to such Failure to Pay occurs on or prior to the Scheduled Maturity Date; and
- (c) the Repudiation/Moratorium Evaluation Date if (i) the relevant Credit Event is a Repudiation/Moratorium for which the event described in part (ii) of the definition of "Repudiation/Moratorium" occurs after the Scheduled Maturity Date, and (ii) the Potential Repudiation/Moratorium with respect to such Repudiation/Moratorium occurs on or prior to the Scheduled Maturity Date.

"Credit Linkage Start Date" means the credit linkage start date specified in the relevant Final Terms.

"**Day Count Fraction**" means the day count fraction specified in the relevant Final Terms and described in section II. 1.3.1 (*Day Count Fraction and Business Day Convention*).

"**Dealer**" means a dealer in obligations of the type of Selected Deliverable Obligations for which Quotations are to be obtained, as selected by the Calculation Agent in its sole and absolute discretion.

"**Default Redemption Date**" has the meaning ascribed to it in section III. 9 (*Events of Default*).

"**Default Requirement**" means USD 10,000,000 (or its equivalent in the relevant currency) or such other amount as specified in the relevant Final Terms in either case as of the occurrence of the relevant Credit Event. In the case where the Transaction Type applicable to the relevant Reference Entity is either "Japan Corporate" or "Japan Sovereign" the Default Requirement means the lower of (a) JPY 1,000,000,000 (or its equivalent in the relevant currency) or (b) USD 10,000,000 (or its equivalent in the relevant currency) or such other amount as specified in the relevant Final Terms in either case as of the occurrence of the relevant Credit Event.

"**deliver**" means, with respect to Deliverable Obligations comprised in any Portfolio, to deliver, novate, transfer (including in the case of a Qualifying Guarantee, transfer of the benefit of the Qualifying Guarantee), assign or sell, as appropriate, in the manner customary for the settlement of such Deliverable Obligations (which shall include executing all necessary documentation and taking any other necessary actions), in order to convey all right, title and interest in such Deliverable Obligations to the relevant Noteholder free and clear of any and all liens, charges, claims or encumbrances (including, without limitation, any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in (a) to (d) inclusive of the definition of "Credit Event" above), other than liens customarily imposed by clearing systems, or right of set-off by or of the Reference Entity or as applicable an Underlying Obligor); provided that (A) to the extent that the Deliverable Obligations consist of Direct Loan Participations, "deliver" shall mean the creation (or procurement of the creation) of a participation in favour of the relevant Noteholder, (B) to the extent that the Deliverable Obligations consist of Qualifying Guarantees, "deliver" shall mean to deliver both the Qualifying Guarantee and the Underlying Obligation and (C) to the extent that the Deliverable Obligations consist of Qualifying Policies, "deliver" shall mean deliver both the Insured Instrument and the benefit of the Qualifying Policy (or a custodial receipt issued by an internationally recognized custodian representing an interest in such an Insured Instrument and the related Qualifying Policy), and "delivery" and "delivered" will be construed accordingly.

"**Deliverable Obligation**" means

- (a) any obligation of a Reference Entity (either directly or as provider of a Qualifying Affiliate Guarantee or, if "All Guarantees" is specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, as provider of any Qualifying Guarantee) described by the Deliverable Obligation Category specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity in the relevant Final Terms and having one or more of the Deliverable Obligation Characteristics specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity in the relevant Final Terms that (i) is payable in an amount equal to its outstanding principal balance or Due and Payable Amount, as applicable and (ii) is not subject to any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in (a) to (d) of the definition of "Credit Event" above or right of set off by or of a Reference Entity or any applicable Underlying Obligor) and (iii) in the case of a Qualifying Guarantee other than a Qualifying Affiliate Guarantee, is capable, at the Valuation Date or Physical Redemption Date (as the case may be) of immediate assertion or demand by or on behalf of the holder or holders against the Reference Entity for an amount at least equal to the outstanding principal balance or Due and Payable Amount apart from the giving of any notice of non-payment or similar procedural requirement, it being understood that acceleration of an Underlying Obligation shall not be considered a procedural requirement,
- (b) each Reference Obligation and, if such Reference Obligation is a Convertible Obligation or an Exchangeable Obligation provided that the right (A) to convert or exchange such obligation or (B) to require the issuer to purchase or redeem such obligation (if the issuer has exercised or may exercise the right to pay the purchase or

- redemption price in whole or in part in Equity Securities) has not been exercised (or such exercise has been effectively rescinded) on or before the Valuation Date or Physical Redemption Date (as the case may be)
- (c) solely in relation to a Restructuring Credit Event applicable to a Sovereign Reference Entity, any Sovereign Restructured Deliverable Obligation that (i) is payable in an amount equal to its outstanding principal balance or Due and Payable Amount, as applicable, (ii) is not subject to any counterclaim, defense (other than a counterclaim or defense based on the factors set forth in (a)-(d) of the definition of "Credit Event") or right of set off by or of a Reference Entity or, as applicable, an Underlying Obligor and (iii) in the case of a Qualifying Guarantee other than a Qualifying Affiliate Guarantee, is capable, at the Valuation Date or Physical Redemption Date (as the case may be), of immediate assertion or demand by or on behalf of the holder or holders against the Reference Entity for an amount at least equal to the outstanding principal balance or Due and Payable Amount being Delivered apart from the giving of any notice of non-payment or similar procedural requirement, it being understood that acceleration of an Underlying Obligation shall not be considered a procedural requirement; and
- (d) any other obligation of a Reference Entity specified as such in the relevant Final Terms,

provided that, in each case, the Calculation Agent determines that such obligation would be a "deliverable obligation" for the purposes of a Market Credit Default Swap.

"Deliverable Obligation Category" means one of Payment, Borrowed Money, Reference Obligations Only, Bond, Loan, or Bond or Loan, as specified in Settlement Matrix for the Transaction Type applicable to the Reference Entity in the relevant Final Terms (each as defined herein, except that, for the purpose of determining Deliverable Obligation(s), the definition of Reference Obligations Only shall be amended to state that no Deliverable Obligation Characteristics shall be applicable to Reference Obligations Only).

"Deliverable Obligation Characteristics" means any one or more of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law, Listed, Not Contingent, Not Domestic Issuance, Assignable Loan, Consent Required Loan, Direct Loan Participation, Transferable, Maximum Maturity, Accelerated or Matured and Not Bearer, as specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity in the relevant Final Terms, provided that if (i) either of the Deliverable Obligation Characteristics "Listed" or "Not Bearer" is specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, the relevant Final Terms shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Bonds and shall only be relevant if Bonds are covered by the selected Deliverable Obligation Category; (ii) the Deliverable Obligation Characteristic "Transferable" is specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, the relevant Final Terms shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Deliverable Obligations that are not Loans (and shall only be relevant to the extent that obligations other than Loans are covered by the selected Deliverable Obligation Category); or (iii) any of the Deliverable Obligation Characteristics "Assignable Loan", "Consent Required Loan" or "Direct Loan Participation" is specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, the relevant Final Terms shall be construed as though such Deliverable Obligation Characteristic had been specified as a Deliverable Obligation Characteristic only with respect to Loans and shall only be relevant if Loans are covered by the selected Deliverable Obligation Category. If any of Payment, Borrowed Money, Loan or Bond or Loan is specified as the Deliverable Obligation Category and more than one of Assignable Loan, Consent Required Loan and Direct Loan Participation are specified as Deliverable Obligation Characteristics, the Deliverable Obligations may include any Loan that satisfies any one of such Deliverable Obligation Characteristics specified and need not satisfy all such Deliverable Obligation Characteristics.

"Designated Maturity" means the period of the Reference Rate (if any) specified in the relevant Final Terms.

"Direct Loan Participation" means a Loan in respect of which, pursuant to a participation agreement, the Issuer is capable of creating, or procuring the creation of a contractual right in favour of the Noteholder that provides such Noteholder with recourse to the participation seller for a specified share in any payments due under the relevant Loan which are received by such participation seller, any such agreement to be entered into between such Noteholder and either (a) the Issuer (to the extent the Issuer is then a lender or a member of the relevant lending syndicate), or (b) a

Qualifying Participation Seller (if any) (to the extent such Qualifying Participation Seller is then a lender or a member of the relevant lending syndicate). If "Additional Provisions Monoline Insurer" is specified as applicable in the description of the Underlying in the relevant Final Terms and if the benefit of the Qualifying Policy is not transferred as part of any transfer of the Insured Instrument, the Qualifying Policy must be transferable at least to the same extent as the Insured Instrument.

"Disruption Event(s)" means the occurrence of either a Settlement Disruption Event as set out in section III. 6 (*Settlement Disruption Event*) or such additional Disruption Events as specified and defined in the relevant Final Terms.

"Domestic Currency" means the lawful currency and any successor currency of (a) the relevant Reference Entity, if the Reference Entity is a Sovereign, or (b) the jurisdiction in which the relevant Reference Entity is organised, if the Reference Entity is not a Sovereign. In no event shall Domestic Currency include any successor currency if such successor currency is the lawful currency of any of Canada, Japan, Switzerland, the United Kingdom or the United States of America or the euro (or any successor currency to any such currency).

"Downstream Affiliate" means an entity whose outstanding Voting Shares were, at the date of issuance of the Qualifying Guarantee, more than 50 per cent. owned, directly or indirectly, by the Reference Entity.

"Due and Payable Amount" means the amount that is due and payable under (or in accordance with the terms of) a Deliverable Obligation on the Valuation Date or the Physical Redemption Date, as the case may be, whether by reason of acceleration, maturity, termination or otherwise (excluding sums in respect of default interest, indemnities, tax gross-ups and other similar amounts).

"Early Redemption Amount" in respect of each Note means an amount in the Settlement Currency to be determined by the Calculation Agent on the basis of the fair market value of the Notes (including any accrued but unpaid interest) less any Breakage Costs, determined by the Calculation Agent eight Business Days prior to the Early Redemption Date.

"Early Redemption Date" means the date specified in section II. 2.5 (*Early Redemption*).

"Early Redemption Event" means any of the early redemption events specified in the relevant Final Terms.

"Entity Weighting" means, in respect of a Reference Entity, the percentage amount specified as such for such Reference Entity in the relevant Final Terms (subject to any adjustments due to a Succession Event).

"Equity Securities" means (a) in the case of a Convertible Obligation, equity securities (including options and warrants) of the issuer of such obligation or depositary receipts representing those equity securities of the issuer of such obligation together with any other property distributed to or made available to holders of those equity securities from time to time; and (b) in the case of an Exchangeable Obligation, equity securities (including options and warrants) of a person other than the issuer of such obligation or depositary receipts representing those equity securities of a person other than the issuer of such obligation together with any other property distributed to or made available to holders of those equity securities from time to time.

"Euroclear" means Euroclear Bank S.A./N.V. (and any successor thereto).

"Event of Default" has the meaning ascribed to it in section III. 9 (*Events of Default*).

"Exercise Amount" has the meaning ascribed to it in section II. 4 (*Restructuring and Multiple Credit Event Notices*).

"Exercise Portion" has the meaning ascribed to it in section II. 4 (*Restructuring and Multiple Credit Event Notices*).

"Exchangeable Obligation" means any obligation that is exchangeable, in whole or in part, for Equity Securities solely at the option of holders of such obligation or a trustee or similar agent acting for the benefit only of holders of

such obligation (or the cash equivalent thereof, whether the cash settlement option is that of the issuer or of (or for the benefit of) the holders of the obligation). With respect to any Exchangeable Obligation that is not an Accreting Obligation, the outstanding principal balance thereof shall exclude any amount that may be payable under the terms of such obligation in respect of the value of the Equity Securities for which such obligation is exchangeable.

"Failure to Pay" means, after the expiration of any applicable Grace Period (after the satisfaction of any conditions precedent to the commencement of such Grace Period), the failure by a Reference Entity to make, when and where due, any payments in an aggregate amount of not less than the Payment Requirement under one or more Obligations in accordance with the terms of such Obligations at the time of such failure.

"FATCA" means Section 1471 to 1474 of the U.S. Internal Revenue Code, as amended from time to time.

"FFI" means a foreign financial institution (for the purpose of FATCA).

"Final List" means, in respect of a Reference Entity which is subject to a Credit Event, the list of obligations of such Reference Entity which are subject to an auction to determine the Final Price, as published by or on behalf of ISDA prior to such auction.

"Final Price" shall be the Auction Final Price or the Valuation Final Price (as applicable) determined in accordance with the relevant Final Terms and section II. 2.4 (*Determination of Final Price*), unless the relevant Final Terms provide for a fixed percentage number, in which case the Final Price shall be such percentage number.

"Final Terms" has the meaning ascribed to it in section I. (*Preliminary Remarks*).

"FINMA" means the Swiss Financial Market Supervisory Authority.

"FISA" means the Swiss Federal Act on Intermediated Securities, as amended from time to time.

"Full Quotation" means each firm bid quotation obtained from a Dealer at or around the Valuation Time, to the extent reasonably practicable, for the relevant Selected Deliverable Obligation and requested Quotation Amount.

"General Terms and Conditions" has the meaning ascribed to it in section I. (*Preliminary Remarks*).

"Governmental Authority" means any de facto or de jure government (or any agency, instrumentality, ministry or department thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of a Reference Entity or of the jurisdiction of organisation of a Reference Entity.

"Grace Period" means the applicable grace period with respect to payments under the relevant Obligation under the terms of such Obligation in effect as of the date as of which such Obligation is issued or incurred, PROVIDED THAT if, as of the date as of which an Obligation is issued or incurred, no grace period with respect to payments or a grace period with respect to payments of less than three Grace Period Business Days is applicable under the terms of such Obligation, a Grace Period of three Grace Period Business Days shall be deemed to apply to such Obligation.

"Grace Period Business Day" means a day on which commercial banks and foreign exchange markets are generally open to settle payments in the place or places and on the days specified for that purpose in the relevant Obligation and, if a place or places are not so specified, in the jurisdiction of the currency in which the Obligation is denominated.

"Grace Period Extension Date" means the date that is the number of days in the Grace Period after the date of the Potential Failure to Pay.

"guarantee" includes a Qualifying Guarantee and "guaranteed" shall be construed accordingly.

"Hedging Disruption" means that the Issuer is unable, after using commercially reasonable efforts, to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge price risks of issuing and performing its obligations with respect to the Notes, or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s).

"Increased Cost of Hedging" means that the Issuer would incur a materially increased (as compared with circumstances existing on the Issue Date) amount of tax, duty, expense or fee (other than brokerage commissions) to (a) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the price risk of issuing and performing its obligations with respect to the Notes, or (b) realise, recover or remit the proceeds of any such transaction(s) or asset(s), provided that any such materially increased amount that is incurred solely due to the deterioration of the creditworthiness of the Issuer shall not be regarded as an Increased Cost of Hedging.

"Insured Instrument" has the meaning ascribed to it in section II. 5 (*Additional Provisions relating to Monoline Reference Entities*).

"Insured Obligor" has the meaning ascribed to it in section II. 5 (*Additional Provisions relating to Monoline Reference Entities*).

"Interest Amount" means an amount which is calculated as described in the relevant Final Terms.

"Interest Commencement Date" means the interest commencement date specified in the relevant Final Terms (if any).

"Interest Period" means the period beginning on (and including) the Issue Date (or, if an Interest Commencement Period is specified in the relevant Final Terms, the Interest Commencement Date) and ending on (but excluding) the first Scheduled Interest Payment Date and each period beginning on (and including) one Scheduled Interest Payment Date and ending on (but excluding) the next Scheduled Interest Payment Date (as specified in the relevant Final Terms), provided that if the relevant Final Terms specify "Unadjusted" as applicable, the Scheduled Interest Payment Dates and Scheduled Maturity Date, as the case may be, shall not be adjusted for the purpose of calculating the Day Count Fraction and the Interest Amount (see section II. 1.3.1 (*Day Count Fraction and Business Day Convention*)).

"Interest Rate" means the interest rate specified in the relevant Final Terms which may, if so specified in the relevant Final Terms, be subject to a Minimum Interest Rate and/or a Maximum Interest Rate.

"IRS" means the U.S. Internal Revenue Service (and any successor thereto).

"ISDA" means

- (a) the International Swaps and Derivatives Association, Inc. or, if the International Swaps and Derivatives Association is split into various associations, abolished or otherwise ceases to be the representative person in respect of credit derivatives documentation and issues, such successor or other person that dealers and market participants in the credit derivatives market refer to in relation to credit derivatives documentation, resolutions and issues; and
- (b) any agent appointed or chosen by ISDA or any other company cooperating with ISDA in connection with the conduction of an auction or the determination or announcement of an Auction Final Price including, without limitation, Creditex Group Inc. and Markit Group Ltd.

"ISDA Definitions" means the 2003 ISDA Credit Derivatives Definitions as supplemented by the 2009 ISDA Credit Derivatives Determinations Committees and Auction Settlement Supplement to the 2003 ISDA Credit Derivatives Definitions published on March 12, 2009 and the 2009 ISDA Credit Derivatives Determinations Committees, Auction Settlement and Restructuring Supplement to the 2003 ISDA Credit Derivatives Definitions published on July 14, 2009.

"**Issue Date**" means the issue date of the Notes specified in the relevant Final Terms.

"**Issue Price**" means the issue price of the Notes specified in the relevant Final Terms.

"**Issuer**" means UBS AG, acting through such branch or office as is specified in the relevant Final Terms.

"**Lead Manager**" means the lead manager specified in the relevant Final Terms.

"**Listed**" means an obligation that is quoted, listed or ordinarily purchased and sold on an exchange.

"**Loan**" means any obligation of a type included in the Borrowed Money Obligation Category that is documented by a term loan agreement, revolving loan agreement or other similar credit agreement but shall not include any other type of Borrowed Money.

"**Market Credit Default Swap**" means a notional market standard credit default swap transaction which satisfies the following conditions:

- (a) it has an effective date coinciding with the Issue Date;
- (b) it has a scheduled termination coinciding with the Scheduled Maturity Date;
- (c) it references the Reference Entity (including the Transaction Type applicable to such Reference Entity) which is subject to the relevant Credit Event;
- (d) it references, if applicable, the same Reference Obligation as specified in the relevant Final Terms; and
- (e) auction settlement is specified as the settlement method (with physical settlement as the fallback settlement method).

"maturity" with respect to an Insured Instrument in the form of a pass-through certificate or similar funded beneficial interest, means the specified date by which the Qualifying Policy guarantees or insures, as applicable, that the ultimate distribution of the unreimbursed principal investment will occur.

"**Maximum Exercise Amount**" has the meaning ascribed to it in section II. 4 (*Restructuring and Multiple Credit Event Notices*).

"**Maximum Exercise Portion**" has the meaning ascribed to it in section II. 4 (*Restructuring and Multiple Credit Event Notices*).

"**Maximum Interest Rate**" means the maximum interest rate (if any) specified in the relevant Final Terms.

"**Maximum Maturity**" means an obligation that has a remaining maturity from the Physical Redemption Date, or Cash Redemption Date as applicable, of not greater than the period specified in the Deliverable Obligation Characteristics section.

"**Minimum Interest Rate**" means the minimum interest rate (if any) specified in the relevant Final Terms.

"**Multiple Holder Obligation**" means an Obligation that (i) at the time the Credit Event Notice is delivered, is held by more than three holders that are not Affiliates of each other and (ii) with respect to which a percentage of holders (determined pursuant to the terms of the Obligation as in effect on the date of such event) at least equal to sixty-six-and-two-thirds is required to consent to the event which would otherwise constitute a "Restructuring" Credit Event. Any Obligation that is a Bond shall be deemed to satisfy the requirement of sub-section (ii) of this definition of

Multiple Holder Obligation. For the purposes of this definition the term Obligation shall be deemed to include Underlying Obligations for which the Reference Entity is acting as provider of a Qualifying Guarantee.

"Nominee" means the nominee of the Issuer described in the relevant Final Terms.

"Not Bearer" means any obligation that is not a bearer instrument unless interests with respect to such bearer instrument are cleared via the Euroclear system, Clearstream International or any other internationally recognised clearing system.

"Not Contingent" means any obligation having as of the Physical Redemption Date or applicable Valuation Date, as the case may be, and at all times thereafter an outstanding principal balance or in the case of such obligations that are not Borrowed Money a Due and Payable Amount that pursuant to the terms of the obligation may not be reduced as a result of the occurrence or non-occurrence of an event or circumstance (other than payment). A Convertible Obligation, an Exchangeable Obligation and an Accreting Obligation shall satisfy the Not Contingent Deliverable Obligation Characteristic if such Convertible Obligation, Exchangeable Obligation or Accreting Obligation otherwise meets the requirements of the preceding sentence as long as, in the case of a Convertible Obligation or an Exchangeable Obligation the right (A) to convert or exchange such obligation or (B) to require the issuer to purchase or redeem such obligation (if the issuer has exercised or may exercise the right to pay the purchase or redemption price, in whole or in part, in Equity Securities) has not been exercised (or such exercise has been effectively rescinded) on or before the Physical Redemption Date or applicable Valuation Date, as the case may be. If a Reference Obligation is a Convertible Obligation or an Exchangeable Obligation, then such Reference Obligation may be included as a Deliverable Obligation only if the right (A) to convert or exchange such obligation or (B) to require the issuer to purchase or redeem such obligation (if the issuer has exercised or may exercise the right to pay the purchase or redemption price, in whole or in part, in Equity Securities) has not been exercised (or such exercise has been effectively rescinded) on or before the Physical Redemption Date or applicable Valuation Date, as the case may be. An Insured Instrument will not be regarded as failing to satisfy the Not Contingent Deliverable Obligation Characteristic solely because such Insured Instrument is subject to provisions limiting recourse in respect of such Insured Instrument to the proceeds of specified assets (including proceeds subject to a priority of payments) or reducing the amount of any Instrument Payments owing under such Insured Instrument.

"Not Domestic Currency" means any obligation that is payable in any currency other than the Domestic Currency.

"Not Domestic Issuance" means any obligation other than an obligation that was, at the time the relevant obligation was issued (or reissued, as the case may be) or incurred, intended to be offered for sale primarily in the domestic market of the relevant Reference Entity. Any obligation that is registered or qualified for sale outside the domestic market of the relevant Reference Entity (regardless of whether it is also registered and qualified for sale within the domestic market of the Reference Entity) shall be deemed to be not intended for sale primarily in the domestic market of the Reference Entity.

"Not Domestic Law" means any obligation that is not governed by the laws of (A) the relevant Reference Entity, if such Reference Entity is a Sovereign, or (B) the jurisdiction of organisation of the relevant Reference Entity, if such Reference Entity is not a Sovereign.

"Not Sovereign Lender" means any obligation that is not primarily owed to a Sovereign or Supranational Organisation, including, without limitation, obligations generally referred to as "Paris Club debt".

"Not Subordinated" means an obligation of the relevant Reference Entity that is not Subordinated to (i) the most senior Reference Obligation in priority of payment or (ii) if no Reference Obligation is specified, any unsubordinated Borrowed Money obligation of the Reference Entity; provided that, if a Substitution Event (as defined under Reference Obligation) has occurred with respect to all of the Reference Obligations or if, with respect to the Reference Obligation, one or more successors to the Reference Entity have been identified and any one or more such Successors have not assumed the Reference Obligation (each, a **"Prior Reference Obligation"**) and no Substitute Reference Obligation has been identified for any of the Prior Reference Obligations at the time of the determination of whether

an obligation satisfies the Not Subordinated Obligation Characteristic or Deliverable Obligation Characteristic, as applicable, "Not Subordinated" shall mean an obligation that would not have been Subordinated to the most senior such Prior Reference Obligation in priority of payment. For purposes of determining whether an obligation satisfies the "Not Subordinated" Obligation Characteristic or Deliverable Obligation Characteristic, the ranking in priority of payment of each Reference Obligation or each Prior Reference Obligation, as applicable, shall be determined as of the date as of which the relevant Reference Obligation or Prior Reference Obligation, as applicable, was issued or incurred, and shall not reflect any change to such ranking in priority of payment after such date.

Where the Reference Obligation specified in the relevant Final Terms is a subordinated obligation and such obligation is redeemed in full on or prior to the Trade Date, the ranking in priority of payment of the Reference Obligation for the purposes of this definition and the purposes of the definition of Substitute Reference Obligation shall be that of such Reference Obligation as of the date on which such Reference Obligation was redeemed in full.

"Noteholder(s)" or "Investor(s)" means an investor or the investors in the Notes.

"Note(s)" has the meaning ascribed to it in section I. (*Preliminary Remarks*).

"Notice of Physical Settlement" has the meaning ascribed to it in section II. 2.2.3 (*Physical Redemption*).

"Obligation" means (i) any obligation of a Reference Entity (either directly or as the provider of a Qualifying Affiliate Guarantee or, if "All Guarantees" is specified as applicable in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, as provider of any Qualifying Guarantee) described by the Obligation Category and having each of the relevant Obligation Characteristics (if any) as specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity (as of the date of the event which constitutes the Credit Event) and (ii) any Reference Obligation. If a Reference Obligation is specified, the Reference Obligation is always an Obligation, regardless of whether it is described by the Obligation Category or has each of the applicable Obligation Characteristics (if any).

"Obligation Acceleration" means one or more Obligations in an aggregate amount of not less than the Default Requirement have become due and payable before they would otherwise have been due and payable as a result of, or on the basis of, the occurrence of a default, event of default or other similar condition or event (however described), other than a failure to make any required payment, in respect of a Reference Entity under one or more Obligations.

"Obligation Category" means Payment, Borrowed Money, Reference Obligations Only, Bond, Loan, or Bond or Loan, only one of which shall be specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity.

"Obligation Characteristics" means any one or more of Not Subordinated, Specified Currency, Not Sovereign Lender, Not Domestic Currency, Not Domestic Law, Listed and Not Domestic Issuance, as specified in the relevant Final Terms; provided that if the Settlement Matrix for the Transaction Type applicable to the Reference Entity specifies the Obligation Category as being Reference Obligations Only, then no Obligation Characteristics shall be applicable, provided that if the Obligation Characteristic "Listed" is specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, the relevant Final Terms shall be construed as though Listed had been specified as an Obligation Characteristic with respect to Bonds and shall only be relevant if Bonds are covered by the selected Obligation Category.

"Obligation Default" means one or more Obligations in an aggregate amount of not less than the Default Requirement have become capable of being declared due and payable before they would otherwise have been due and payable as a result of, or on the basis of, the occurrence of a default, event of default or other similar condition or event (however described), other than a failure to make any required payment, in respect of a Reference Entity under one or more Obligations.

"Outstanding Denomination" means the outstanding denomination specified in the relevant Final Terms.

"outstanding principal balance" with respect to an Insured Instrument in the form of a pass-through certificate or similar funded beneficial interest, means the outstanding unreimbursed principal investment.

"Partial Redemption Amount" means the partial redemption amount specified in the relevant Final Terms.

"Participating FFI" means a Participating FFI for the purposes of FATCA.

"Paying Agent" means the paying agent specified in the relevant Final Terms, subject to a variation or termination of appointment according to section III. 11 (*Agents*).

"Payment" means any obligation (whether present or future, contingent or otherwise) for the payment or repayment of money, including, without limitation, Borrowed Money.

"Payment Requirement" means USD 1,000,000 (or its equivalent in the relevant currency) or such other amount as specified in the relevant Final Terms (or its equivalent in the relevant currency), in each case as of the occurrence of the relevant Failure to Pay. In the case where the Transaction Type applicable to the Reference Entity is either "Japan Corporate" or "Japan Sovereign" the Payment Requirement means the lower of (a) JPY 100,000,000 (or its equivalent in the relevant currency) or (b) USD 1,000,000 (or its equivalent in the relevant currency) or such other amount as specified in the relevant Final Terms in each case as of the occurrence of the relevant Failure to Pay.

"Permitted Currency" means (i) the legal tender of any Group of 7 country (or any country that becomes a member of the Group of 7 if such Group of 7 expands its membership) or (ii) the legal tender of any country which, as of the date of such change, is a member of the Organisation for Economic Co-operation and Development and has a local currency long-term debt rating of either AAA or higher assigned to it by Standard & Poor's, a division of The McGraw-Hill Companies Inc. or any successor to the rating business thereof, Aaa or higher assigned to it by Moody's Investor Service, Inc. or any successor to the rating business thereof or AAA or higher assigned to it by Fitch Ratings or any successor to the rating business thereof.

"Physical Redemption Date" means the date specified by the Issuer in the Notice of Physical Settlement as the intended redemption date for the delivery of the relevant Portfolio to the Noteholders which shall not be later than 165 calendar days following (a) the date ISDA publicly announced that the relevant Credit Event Determinations Committee resolved that a Credit Event occurred, or (b) if ISDA did not make such an announcement, the date the Issuer gave a Credit Event Notice to the Noteholders.

"Portfolio" means, in respect of a Reference Entity which is subject to a Credit Event, the portfolio of Selected Deliverable Obligations and/or cash selected by the Issuer in its discretion, provided that (a) the aggregate face value of the Selected Deliverable Obligations (converted, as applicable, into the currency in which the Notes are denominated at the spot foreign exchange rate prevailing on the date that the relevant Selected Deliverable Obligation was first included in the Notice of Physical Settlement, as determined by the Calculation Agent) and/or cash comprising the Portfolio shall be (approximately) equal to (i) the aggregate Specified Denomination of the outstanding Notes, in case of Single Name Credit Linked Notes or (ii) the product of the aggregate Specified Denomination of the outstanding Notes and the Entity Weighting of such Reference Entity, in case of Basket Credit Linked Notes or Index Credit Linked Notes and (b) the Issuer shall, if it has incurred any Breakage Costs in respect of such Credit Event, exclude sufficient cash and/or Selected Deliverable Obligations from the Portfolio such that the value of the excluded cash and/or Selected Deliverable Obligation is equal to the Breakage Costs. If a Selected Deliverable Obligation is an Accreting Obligation, the reference to "face value" shall be replaced by "Accreted Amount".

"Potential Credit Event" means an event which in the reasonable opinion of the Calculation Agent constitutes a Credit Event but in respect of which neither (a) ISDA has made an announcement that the relevant Credit Derivatives

Determinations Committee has resolved whether such event constitutes a Credit Event nor (b) the Issuer has given a Credit Event Notice to the Noteholders prior to the Scheduled Maturity Date.

"Potential Failure to Pay" means the failure by a Reference Entity to make, when and where due, any payment in an aggregate amount of not less than the Payment Requirement under one or more Obligations without regard to any grace period or any conditions precedent to the commencement of any grace period applicable to such Obligation in accordance with the terms of such obligation at the time of such failure.

"Potential Repudiation/Moratorium" means the occurrence of the events described in section (i) of the definition of "Repudiation/Moratorium".

"Price Source Disruption Event" has the meaning ascribed to it in section III. 5 (*Price Source Disruption Event*).

"Product Documentation" has the meaning ascribed to it in section I. (*Preliminary Remarks*).

"Public Source" means each of Bloomberg Service, Dow Jones Telerate Service, Reuter Monitor Money Rates Services, Dow Jones News Wire, Wall Street Journal, New York Times, Nihon Keizai Shinbun, Asahi Shinbun, Yomiuri Shinbun, Financial Times, La Tribune, Les Echos and Australian Financial Review (and any successor publications), the main source(s) of business news in the country in which the Reference Entity is organized and any other internationally recognized published or electronically displayed news sources.

"Publicly Available Information" means information that reasonably confirms any of the facts relevant to the determination that the Credit Event described in a Credit Event Notice has occurred and which:

- (i) has been published in or on not less than two Public Sources regardless of whether the reader or user thereof pays a fee to obtain such information; provided that, if the Issuer or an Affiliate of the Issuer is cited as the sole source of such information, then such information shall not be deemed to be Publicly Available Information unless the Issuer or an Affiliate of the Issuer, as the case may be is acting in its capacity as trustee, fiscal agent, administrative agent, clearing agent, paying agent, facility agent or agent bank for an Obligation;
- (ii) is information received from or published by (A) a Reference Entity (or a Sovereign Agency in respect of a Reference Entity which is a Sovereign) or (B) a trustee, fiscal agent, administrative agent, clearing agent, paying agent, facility agent or agent bank for an Obligation;
- (iii) is information contained in any petition or filing instituting a proceeding described in "Bankruptcy" against or by a Reference Entity; or
- (iv) is information contained in any order, decree, notice or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body.

In relation to any information described above in sections (ii), (iii) and (iv), recipients may assume that such information has been disclosed to them without violating any law, agreement or understanding regarding the confidentiality of such information and that the Issuer has not taken any action or entered into any agreement or understanding with the Reference Entity or any Affiliate of the Reference Entity that would be breached by, or would prevent, the disclosure of such information to the party receiving such information.

Publicly Available Information need not state (i) where applicable, the percentage of Voting Shares owned, directly or indirectly, by the Reference Entity and (ii) that the relevant occurrence (A) has met the Payment Requirement or Default Requirement, (B) is the result of exceeding any applicable Grace Period or (C) has met the subjective criteria specified in certain Credit Events.

If the Issuer or an Affiliate of the Issuer is (i) the sole source of information in its capacity as trustee, fiscal agent, administrative agent, clearing agent, paying agent facility agent or agent bank for an Obligation and (ii) a holder of the Obligations with respect to which a Credit Event has occurred, the Issuer shall be required to deliver a certificate signed by a Managing Director (or other substantively equivalent title), certifying the occurrence of a Credit Event with respect to a Reference Entity.

"Qualifying Affiliate Guarantee" means a Qualifying Guarantee provided by a Reference Entity in respect of an Underlying Obligation of a Downstream Affiliate of that Reference Entity.

"Qualifying Participation Seller" means any participation seller that meets the requirements specified in the relevant Final Terms. If no such requirements are specified, there shall be no Qualifying Participation Seller.

"Qualifying Guarantee" means an arrangement evidenced by a written instrument pursuant to which a Reference Entity irrevocably agrees (by guarantee of payment or equivalent legal arrangement) to pay all amounts due under an obligation (the **"Underlying Obligation"**) for which another party is the obligor (the **"Underlying Obligor"**). Qualifying Guarantees shall exclude any arrangement (i) structured as a surety bond, financial guarantee insurance policy, letter of credit or equivalent legal arrangement or (ii) pursuant to the terms of which the payment obligations of the Reference Entity can be discharged, reduced, otherwise altered or assigned (other than by operation of law) as a result of the occurrence or non-occurrence of an event or circumstance (other than payment). The benefit of a Qualifying Guarantee must be capable of being delivered together with the delivery of the Underlying Obligation.

(i) For the purposes of applying the Obligation Category and the Deliverable Obligation Category the Qualifying Guarantee shall be deemed to satisfy the same category or categories as those that describe the Underlying Obligation.

(ii) For the purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics:

- a) both the Qualifying Guarantee and the Underlying Obligation must satisfy on the relevant date Obligation Characteristics or the Deliverable Obligation Characteristics from the following list, if applicable:

Not Subordinated
Specified Currency
Not Sovereign Lender
Not Domestic Currency
Not Domestic Law.

For these purposes the lawful currency of Canada, Japan, Switzerland, the United Kingdom and the United States of America or the euro shall not be a Domestic Currency and the laws of England and the laws of the State of New York shall not be a Domestic Law.

- b) only the Underlying Obligation must satisfy on the relevant date each of the relevant Obligation Characteristics or the Deliverable Obligation Characteristics from the following list, if applicable:-

Listed
Not Contingent
Not Domestic Issuance
Assignable Loan
Consent Required Loan
Direct Loan Participation
Transferable
Maximum Maturity
Accelerated or Matured
Not Bearer.

- (iii) For the purposes of the application of the Obligation Characteristics or the Deliverable Obligation Characteristics to an Underlying Obligation, references to the Reference Entity shall be deemed to be references to the Underlying Obligor.
- (iv) The terms "outstanding principal balance" and "Due and Payable Amount" when used in connection with Qualifying Guarantees are to be interpreted to be the "outstanding principal balance" and "Due and Payable Amount", as applicable, of the Underlying Obligation which is supported by a Qualifying Guarantee.

"Quotation" has the meaning ascribed to it in section II. 2.4.2 (*Fallback Determination of the Final Price*).

"Quotation Amount" has the meaning ascribed to it in section II. 2.4.2 (*Fallback Determination of the Final Price*).

"Redemption Amount" means the applicable redemption amount specified in the relevant Final Terms.

"Redemption Date" means the redemption date applicable to the Notes specified in the relevant Final Terms.

"Redemption Notice" has the meaning ascribed to it in section II. 2.2.2 (*Cash Redemption*).

"Reference Banks" has the meaning ascribed to it in section II. 1.3.2 (*Notes with Interest subject to a Reference Rate*).

"Reference Entity" or **"Reference Entities"** means the entity or entities specified as such in the relevant Final Terms and any Successor.

"Reference Obligation" means the obligation specified in the relevant Final Terms, subject to any adjustments due to the occurrence of a Succession Event or a Substitution Event (both as described in section II. 3 (*Succession and Substitution Events*)).

"Reference Obligations Only" means any obligation that is a Reference Obligation and no Obligation Characteristics shall be applicable to Reference Obligations Only.

"Reference Period" means the period from and including the Credit Linkage Start Date to and including the Credit Linkage End Date.

"Reference Rate" means the rate specified in the relevant Final Terms. **"Relevant Obligations"** means the Obligations constituting Bonds and Loans of the Reference Entity outstanding immediately prior to the effective date of the Succession Event, excluding any debt obligations outstanding between the Reference Entity and any of its Affiliates, as determined by the Calculation Agent. The Calculation Agent will determine the entity which succeeds to which such Relevant Obligations on the basis of the Best Available Information. If the date on which the Best Available Information becomes available or is filed precedes the legally effective date of the relevant Succession Event, any assumptions as to the allocation of obligations between or among entities contained in the Best Available Information will be deemed to have been fulfilled as of the legally effective date of the Succession Event, whether or not this is in fact the case.

"Relevant Stock Exchange" means the stock exchange where the Notes are listed, if applicable, as set out in the relevant Final Terms.

"Repudiation/Moratorium" means the occurrence of both of the following events: (i) an authorised officer of a Reference Entity or a Governmental Authority (a) disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, one or more Obligations in an aggregate amount of not less than the Default Requirement, or (b) declares or imposes a moratorium, standstill, roll-over or deferral, whether de facto or de jure, with respect to one or more Obligations in an aggregate amount of not less than the Default Requirement and (ii) a Failure to Pay, determined without regard to the Payment Requirement, or a Restructuring determined without regard to the Default Requirement, with respect to any such Obligation occurs on or prior to the Repudiation/Moratorium Evaluation Date.

"Repudiation/Moratorium Evaluation Date" means, if a Potential Repudiation/Moratorium occurs on or prior to the Scheduled Maturity Date, (i) if the Obligations to which such Potential Repudiation/Moratorium relates include Bonds, the date that is the later of (A) the date that is 60 days after the date of such Potential Repudiation/Moratorium and (B) the first payment date under any such Bond after the date of such Potential Repudiation/Moratorium (or, if later, the expiration date of any applicable Grace Period in respect of such payment date) and (ii) if the Obligations to which such Potential Repudiation/Moratorium relates do not include Bonds, the date that is 60 days after the date of such Potential Repudiation/Moratorium.

"Reset Date" means the first day of the relevant Interest Period.

"Restructuring" means that, (a) with respect to one or more Obligations and in relation to an aggregate amount of not less than the Default Requirement, any one or more of the following events occurs in a form that binds all holders of such Obligation, is agreed between the Reference Entity or a Governmental Authority and a sufficient number of holders of such Obligation to bind all holders of the Obligation or is announced (or otherwise decreed) by a Reference Entity or a Governmental Authority in a form that binds all holders of such Obligation, and such event is not expressly provided for under the terms of such Obligation in effect as of the later of (i) the Credit Event Backstop Date applicable to the Notes and (ii) the date as of which such Obligation is issued or incurred:

- (i) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals;
- (ii) a reduction in the amount of principal or premium payable at maturity or at scheduled redemption dates;
- (iii) a postponement or other deferral of a date or dates for either (A) the payment or accrual of interest or (B) the payment of principal or premium;
- (iv) a change in the ranking in priority of payment of any Obligation, causing the Subordination of such Obligation to any other Obligation; or
- (v) any change in the currency or composition of any payment of interest or principal to any currency which is not a Permitted Currency.

(b) Notwithstanding the provisions of (a) above, none of the following shall constitute a Restructuring:

- (i) the payment in euros of interest or principal in relation to an Obligation denominated in a currency of a Member State of the European Union that adopts or has adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;
- (ii) the occurrence of, agreement to or announcement of any of the events described in (a)(i) to (v) above due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and
- (iii) the occurrence of, agreement to or announcement of any of the events described in (a)(i) to (v) above in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of the Reference Entity.

(c) Notwithstanding the provisions of (a) above, unless "Multiple Holder Obligation" is specified in the Settlement Matrix as not applicable with respect to the Transaction Type of a Reference Entity, the occurrence of, agreement to, or announcement of, any of the events described in (a)(i) to (v) above shall only be a Restructuring if the Obligation in respect of any such events is a Multiple Holder Obligation.

(d) For the purposes of the definition of Restructuring the term Obligation shall be deemed to include Underlying Obligations for which the Reference Entity is acting as provider of a Qualifying Affiliate Guarantee, or, if All Guarantees is specified as applicable in the relevant Final Terms, as provider of a Qualifying Guarantee. In the case of a Qualifying Guarantee and an Underlying Obligation references to the Reference Entity in section (a) above shall be deemed to refer to the Underlying Obligor and the reference to the Reference Entity in section (b) above shall continue to refer to the Reference Entity.

With respect to an Insured Instrument that is in the form of a pass-through certificate or similar funded beneficial interest or a Qualifying Policy with respect thereto, the following definition of "Restructuring" will apply:

"Restructuring" means that, (a) with respect to one or more Obligations and in relation to an aggregate amount of not less than the Default Requirement, any one or more of the following events occurs in a form that binds all holders of such Obligation, is agreed between the Reference Entity or a Governmental Authority and a sufficient number of holders of such Obligation to bind all holders of the Obligation or is announced (or otherwise decreed) by a Reference Entity or a Governmental Authority in a form that binds all holders of such Obligation, and such event is not expressly provided for under the terms of such Obligation in effect as of the later of (i) the Credit Event Backstop Date applicable to the Notes and (ii) the date as of which such Obligation is issued or incurred:

- (i) a reduction in the rate or amount of the Instrument Payments described in clause (A)(x) of the definition thereof that are guaranteed or insured by the Qualifying Policy;
 - (ii) a reduction in the amount of the Instrument Payments described in clause (A)(y) of the definition thereof that are guaranteed or insured by the Qualifying Policy;
 - (iii) a postponement or other deferral of a date or dates for either (A) the payment or accrual of the Instrument Payments described in clause (A)(x) of the definition thereof or (B) the payment of the Instrument Payments described in clause (A)(y) of the definition thereof, in each case that are guaranteed or insured by the Qualifying Policy;
 - (iv) a change in the ranking in priority of payment of (A) any Obligation under a Qualifying Policy in respect of Instrument Payments, causing the Subordination of such Obligation to any other Obligation or (B) any Instrument Payments, causing the Subordination of such Insured Instrument to any other instrument in the form of a pass-through certificate or similar funded beneficial interest issued by the Insured Obligor, it being understood that, for this purpose, Subordination will be deemed to include any such change that results in a lower ranking under a priority of payments provision applicable to the relevant Instrument Payments; or
 - (v) any change in the currency or composition of any payment of Instrument Payments that are guaranteed or insured by the Qualifying Policy to any currency which is not a Permitted Currency.
- (b) Notwithstanding the provisions of (a) above, none of the following shall constitute a Restructuring:
- (i) the payment in euros of interest or principal in relation to an Obligation denominated in a currency of a Member State of the European Union that adopts or has adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;
 - (ii) the occurrence of, agreement to or announcement of any of the events described in (a)(i) to (v) above due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and
 - (iii) the occurrence of, agreement to or announcement of any of the events described in (a)(i) to (v) above in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of the Reference Entity or, in the case of Qualifying Policy and an Insured Instrument, where (A) the Qualifying Policy continues to guarantee or insure, as applicable, that the same Instrument Payments will be made on the same dates on which the Qualifying Policy guaranteed or insured that such Instrument Payments would be made prior to such event and (B) such event is not a change in the ranking in the priority of payment of the Qualifying Policy.
- (c) Notwithstanding the provisions of (a) above, unless "Multiple Holder Obligation" is specified in the Settlement Matrix as not applicable with respect to the Transaction Type of a Reference Entity, the occurrence of,

agreement to, or announcement of, any of the events described in (a)(i) to (v) above shall only be a Restructuring if the Obligation in respect of any such events is a Multiple Holder Obligation.

- (d) For the purposes of the definition of Restructuring the term Obligation shall be deemed to include Underlying Obligations for which the Reference Entity is acting as provider of a Qualifying Affiliate Guarantee, or, if All Guarantees is specified as applicable in the relevant Final Terms, as provider of a Qualifying Guarantee. In the case of a Qualifying Guarantee and an Underlying Obligation references to the Reference Entity in section (a) above shall be deemed to refer to the Underlying Obligor and the reference to the Reference Entity in section (b) above shall continue to refer to the Reference Entity.
- (e) For purposes of this definition of Restructuring, the term Obligation shall be deemed to include Insured Instruments for which the Reference Entity is acting as provider of a Qualifying Policy. In the case of a Qualifying Policy and an Insured Instrument, references to the Reference Entity in Section (a) above shall be deemed to refer to the Insured Obligor and the reference to the Reference Entity in Section (b) above shall continue to refer to the Reference Entity.

"Reuters" means Reuters news agency, a division of Thomson Reuters Corporation (and any successor thereto).

"RWA" means risk-weighted assets.

"Scheduled Interest Payment Date" means each of the scheduled interest payment dates specified in the relevant Final Terms.

"Scheduled Maturity Date" means the scheduled maturity date specified in the relevant Final Terms.

"Security Numbers" means the security numbers specified in the relevant Final Terms.

"Selected Deliverable Obligations" has the meaning ascribed to it in section II. 2.4.2 (*Fallback Determination of the Final Price*).

"Seller Merger Notice" has the meaning ascribed to it in section II. 2.6 (*Redemption following a Noteholder Merger Event*).

"Settlement Currency" means the currency used for the payment of the Issue Price, any redemption amount or any other amount as specified in the relevant Final Terms.

"Settlement Disruption Event" means an event beyond the control of the Issuer and/or the Paying Agent as a result of which the Issuer and/or the Paying Agent cannot make (i) a payment and/or (ii) delivery of one or more asset(s), in each case to the relevant Clearing System or intermediary as and when such payment or delivery is due to be made.

"Settlement Matrix" means the settlement matrix set out in Annex 1 (*Settlement Matrix*) of these General Terms and Conditions.

"SIX SIS" means SIX SIS AG, the Swiss Securities Service Corporation in Olten, Switzerland.

"Sovereign" means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) thereof.

"Sovereign Agency" means any agency, instrumentality, ministry, department or other authority (including, without limiting the foregoing, the central bank) of a Sovereign.

"Sovereign Restructured Deliverable Obligation" means an Obligation of a Sovereign Reference Entity (a) in respect of which a Restructuring that is the subject of the relevant Credit Event Notice has occurred and (b) described by the Deliverable Obligation Category specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity and having each of the Deliverable Obligation Characteristics, if any, specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, in each case, immediately preceding the date on which such Restructuring is legally effective in accordance with the terms of the documentation governing such Restructuring without regard to whether the Obligation would satisfy such Deliverable Obligation Category or Deliverable Obligation Characteristics after such Restructuring.

"Specified Currency" means any Standard Specified Currency or any other currency specified in the relevant Final Terms.

"Specified Denomination" means the specified denomination specified in the relevant Final Terms.

"Standard Specified Currencies" means the lawful currencies of any of Canada, Japan, Switzerland, the United Kingdom and the United States of America and the euro (and any successor currency to any of the aforementioned currencies).

"Subordination" means, with respect to an obligation (the **"Subordinated Obligation"**) and another obligation of the Reference Entity to which such obligation is being compared (the **"Senior Obligation"**), a contractual, trust, or similar arrangement providing that (i) upon the liquidation, dissolution, reorganisation or winding up of the Reference Entity claims of the holders of the Senior Obligation will be satisfied prior to the claims of the Subordinated Obligation or (ii) the holders of the Subordinated Obligation will not be entitled to receive or retain payments in respect of their claims against the Reference Entity at any time that the Reference Entity is in payment arrears or is otherwise in default under the Senior Obligation. "Subordinated" will be construed accordingly. For purposes of determining whether Subordination exists or whether an obligation is Subordinated with respect to another obligation to which it is being compared, the existence of preferred creditors arising by operation of law or of collateral, credit support or other credit enhancement arrangements shall not be taken into account, except that, notwithstanding the foregoing, priorities arising by operation of law shall be taken into account where the Reference Entity is Sovereign.

"Substitute Debtor" has the meaning ascribed to it in section III. 13 (*Substitution of the Issuer*).

"Substitute Reference Obligation" shall be, in respect of a Reference Obligation, an Obligation either (a) determined by the Calculation Agent that (i) ranks *pari passu* in priority of payment with such Reference Obligation (with the ranking in priority of payment of such Reference Obligation being determined as of the date as of which such Reference Obligation was issued or incurred and not reflecting any change to such ranking in priority of payment after such date), (ii) preserves the economic equivalent, as closely as practicable as determined by the Calculation Agent, of the delivery and payment obligations of the Issuer in respect of the Notes and (iii) is an obligation of the relevant Reference Entity (either directly or as provider of a Qualifying Affiliate Guarantee or, if "All Guarantees" is specified as applicable in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, as provider of any Qualifying Guarantee) or (b) which ISDA publicly announces on or following the Trade Date that the Credit Derivatives Determinations Committee has resolved is a Substitute Reference Obligation in respect of a Reference Obligation. The Substitute Reference Obligation or Substitute Reference Obligations identified by the Calculation Agent shall, without further action, replace such Reference Obligation or Reference Obligations.

"Substitution Event" has the meaning ascribed to it in section II. 3 (*Succession and Substitution Events*).

"Successor" means:

(a) in relation to a Reference Entity that is not a Sovereign, either:

(A) the entity or entities, if any, determined by the Calculation Agent as set forth below:

- (i) If one entity directly or indirectly succeeds to 75% or more of the Relevant Obligations of the Reference Entity by way of a Succession Event, that entity will be the sole Successor;
 - (ii) If only one entity directly or indirectly succeeds to more than 25% (but less than 75%) of the Relevant Obligations of the Reference Entity by way of a Succession Event, and not more than 25% of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entity that succeeds to more than 25% of the Relevant Obligations will be the sole Successor;
 - (iii) If more than one entity each directly or indirectly succeeds to more than 25% of the Relevant Obligations of the Reference Entity by way of a Succession Event, and not more than 25% of the Relevant Obligations of the Reference Entity remain with the Reference Entity, the entities that succeed to more than 25% of the Relevant Obligations will each be a Successor, and the Notes will be amended as described in Section 3.2 above;
 - (iv) If one or more entities each directly or indirectly succeeds to more than 25% of the Relevant Obligations of the Reference Entity by way of a Succession Event, and more than 25% of the Relevant Obligations of the Reference Entity remain with the Reference Entity, each such entity and the Reference Entity will be Successors, and the Notes will be amended as described in Section 3.2 above;
 - (v) If one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of the Reference Entity by way of a Succession Event, but no entity succeeds to more than 25% of the Relevant Obligations of the Reference Entity and the Reference Entity continues to exist, there will be no Successor and the Reference Entity and the Notes will not be changed in any way as a result of the Succession Event; and
 - (vi) If one or more entities directly or indirectly succeed to a portion of the Relevant Obligations of the Reference Entity by way of a Succession Event, but no entity succeeds to more than 25% of the Relevant Obligations of the Reference Entity and the Reference Entity ceases to exist, the entity which succeeds to the greatest percentage of Relevant Obligations (or, if two or more entities succeed to an equal percentage of Relevant Obligations, the entity from among those entities which succeeds to the greatest percentage of obligations) of the Reference Entity will be the sole Successor; or
- (B) any entity succeeding a Reference Entity which has been specified by a Credit Derivatives Determinations Committee as "Successor" for market standard credit derivatives transactions referencing the Reference Entity; and
- (b) in relation to a Sovereign Reference Entity, either:
- (A) any direct or indirect successor to that Reference Entity by way of Succession Event irrespective of whether such successor assumes any of the obligations of such Reference Entity, as determined by the Calculation Agent; or
 - (B) any entity succeeding a Reference Entity which has been specified by a Credit Derivatives Determinations Committee as "Successor" for market standard credit derivatives transactions referencing the Reference Entity.

"Suspended Interest Amount" has the meaning ascribed to it in section II. 1.2 (*Postponement of Interest Payments*).

"succeed" means with respect to a Reference Entity and its Relevant Obligations (or, as applicable, obligations), that a party other than such Reference Entity (i) assumes or becomes liable for such Relevant Obligations (or, as applicable, obligations) whether by operation of law or pursuant to any agreement or (ii) issues Bonds that are exchanged for such Relevant Obligations (or, as applicable, obligations), and in either case such Reference Entity is no longer an obligor (primarily or secondarily) or guarantor with respect to such Relevant Obligations (or, as applicable, obligations). The determinations required pursuant to this definition shall be made in the case of an exchange offer, on the basis of the outstanding principal balance of Relevant Obligations tendered and accepted in the exchange and

not on the basis of the outstanding principal balance of such Bonds for which Relevant Obligations have been exchanged.

"Succession Event" means (i) with respect to a Reference Entity that is not a Sovereign, an event such as a merger, consolidation, amalgamation, transfer of assets or liabilities, demerger, spin-off or other similar event in which one entity succeeds to the obligations of another entity, whether by way of operation of law or pursuant to any agreement or (ii) with respect to a Reference Entity that is a Sovereign, an event such as an annexation, unification, secession, partition, dissolution, consolidation reconstitution or other event that results in any direct or indirect successor(s) to such Reference Entity. Notwithstanding the foregoing, "Succession Event" shall not include an event (A) in which the holders of obligations of the Reference Entity exchange such obligations for the obligations of another entity, unless such exchange occurs in connection with a merger, consolidation, amalgamation, transfer of assets or liabilities, demerger, spin-off or other similar event or (B) with respect to which the legally effective date (or, in the case of a Reference Entity that is a Sovereign, the date of occurrence) has occurred prior to the Succession Event Backstop Date.

"Succession Event Backstop Date" means the date that is 90 calendar days prior to the Succession Event Resolution Request Date or, if no request was made to the Credit Derivatives Determinations Committee to resolve whether such event constitutes a Succession Event (or if such a request is made but the Credit Derivatives Determinations Committee has resolved not to determine such matter), the date that is 90 calendar days prior to the date on which a Succession Event Notice is delivered by the Issuer to the Noteholders. The Succession Event Backstop Date shall not be subject to adjustment in accordance with any Business Day Convention unless otherwise specified in the relevant Final Terms.

"Succession Event Notice" has the meaning ascribed to it in section II. 3.1 (*General*).

"Succession Event Resolution Request Date" means, with respect to a notice to ISDA (delivered in accordance with ISDA's applicable rules) requesting that a Credit Derivatives Determinations Committee be convened to resolve whether an event that constitutes a Succession Event has occurred with respect to the relevant Reference Entity, the date such notice is effective, as announced by ISDA.

"Supranational Organisation" means any entity or organisation established by treaty or other arrangement between two or more Sovereigns or the Sovereign Agencies of two or more Sovereigns and includes, without limiting the foregoing, the International Monetary Fund, European Central Bank, International Bank for Reconstruction and Development and European Bank for Reconstruction and Development.

"TARGET Settlement Day" means any day on which TARGET 2 (the Trans-European Automated Real-time Gross Settlement Express Transfer System) is open.

"Tax Event" means that the Issuer (a) on the occasion of a payment or delivery due under the Notes, has or will become obliged to pay additional amounts as a result of (i) any change in, or amendment to, the laws or regulations of any jurisdiction in which the Issuer is or becomes subject to tax or any political subdivision or any authority thereof or therein having power to tax, or (ii) any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and (b) such obligation cannot be avoided by the Issuer taking reasonable measures (but not the substitution of the Issuer) available to it.

"Trade Date" means the trade date specified in the relevant Final Terms.

"Transaction Type" means the transaction type applicable to a Reference Entity as specified in the relevant Final Terms.

"Transferable" means an obligation that is transferable to institutional investors without any contractual, statutory or regulatory restriction, provided that none of the following shall be considered contractual, statutory or regulatory restrictions: (A) contractual, statutory or regulatory restrictions that provide for eligibility for resale pursuant to Rule

144A or Regulation S promulgated under the United States Securities Act of 1933, as amended (and any contractual, statutory or regulatory restrictions promulgated under the laws of any jurisdiction having a similar effect in relation to the eligibility for resale of an obligation); or (B) restrictions on permitted investments such as statutory or regulatory investment restrictions on insurance companies and pension funds. If "Additional Provisions Monoline Insurer" is specified as applicable in the description of the Underlying in the relevant Final Terms and if the benefit of the Qualifying Policy is not transferred as part of any transfer of the Insured Instrument, the Qualifying Policy must be transferable at least to the same extent as the Insured Instrument.

"Underlying Obligation" has the meaning ascribed to it in the definition of "Qualifying Guarantee".

"Valuation Date" means, in respect of a Credit Event, a date chosen by the Issuer in the period from (and including) the day falling 150 calendar days following (a) the date ISDA publicly announced that the relevant Credit Event Determinations Committee resolved that such Credit Event occurred, or (b) if ISDA did not make such an announcement, the date the Issuer gave a Credit Event Notice to the Noteholders to (and including) the 10th Business Day following such date.

"Valuation Final Price" has the meaning ascribed to it in section II. 2.4.2 (*Fallback Determination of the Final Price*).

"Valuation Time" means at or around 11:00 a.m. in the principal trading centre for the relevant Selected Deliverable Obligation.

"Voting Shares" shall mean those shares or other interests that have the power to elect the board of directors or similar governing body of an entity.

"Weighted Average Quotation" means the weighted average of firm bid quotations obtained from Dealers at or around the Valuation Time, to the extent reasonably practicable, each for an amount of less than the requested Quotation Amount but in aggregate (approximately) equal to the requested Quotation Amount.

V. Risk Factors

An investment in the Notes involves certain risks. If one or more of the risks described below occurs, Noteholders may incur a partial or even a total loss of their invested capital. Potential Noteholders should be familiar with instruments having the characteristics of the Notes and credit markets in general and should fully understand and carefully consider the risk factors below as well as the terms and conditions set out in the Product Documentation and the nature and extent of their exposure to risk of loss. In particular, each potential Noteholder should carefully evaluate the merits and risks of the investment in the Notes in the context of its particular financial situation and the impact the Notes will have on its overall investment portfolio.

This section of the General Terms and Conditions does not purport to be an exhaustive or comprehensive list of all possible risks associated with an investment in the Notes. Therefore investment decisions should not be made solely on the basis of the risk warnings set out in this section and the relevant Final Terms. Instead, each prospective Noteholder should, prior to a purchase of the Notes, consult with its own legal, regulatory, tax, financial and accounting advisors to the extent it considers necessary in order to determine whether the purchase of the Notes (a) is fully consistent with its financial needs, objectives and conditions, (b) fully complies and is consistent with all constitutional documents, investment policies, internal guidelines and policies, authorisations and restrictions (including as to its capacity and authority) applicable to it, (c) has been duly approved in accordance with all applicable laws, regulations and procedures and (d) is a fit, proper and suitable investment for it (including, without limitation, taking into account applicable selling restrictions). In addition, potential Noteholders should conduct such independent investigation and analysis regarding the Issuer and all other relevant persons or entities and such market and economic factors as they deem appropriate to evaluate the merits and risks of an investment in the Notes.

References in this section of the General Terms and Conditions to "Reference Entity" or "Reference Entities" shall be deemed to be references to a Reference Entity or Reference Entities referenced by the relevant Notes.

1 Specific Risk Factors relating to Credit Linked Notes

1.1 Linkage to the Creditworthiness of one or more Reference Entities

The Notes differ from ordinary debt instruments in that the amount of principal and interest payable by the Issuer depends on whether a Credit Event with respect to one or more Reference Entities has occurred within the Reference Period. Possible Credit Events include Bankruptcy, Failure to Pay, Obligation Acceleration, Obligation Default, Repudiation/Moratorium and Restructuring, as specified in the relevant Final Terms. The Issuer will only pay interest for the whole term of the Notes and redeem the Notes on the Scheduled Maturity Date at an amount equal to 100 per cent. of their Specified Denomination if no Credit Event with respect to the Reference Entity or all of the Reference Entities, as applicable, has occurred within the Reference Period. As it is not possible to predict whether a Credit Event may occur in respect of a Reference Entity, the return of the Notes is not predictable and the Notes are not capital protected.

The likelihood of the occurrence of a Credit Event with respect to a Reference Entity will generally fluctuate with, among other things, the financial condition and other characteristics of such Reference Entity, general economic conditions, the condition of certain financial markets, political events, developments or trends in any particular industry and changes in prevailing interest rates and such fluctuations may decrease the value of the Notes even in the absence of a Credit Event. Potential Noteholders should perform a thorough review of and conduct their own investigation and analysis with respect to the creditworthiness of, and the likelihood of the occurrence of a Credit Event with respect to,

the respective Reference Entity or Reference Entities, as applicable. Actions of a Reference Entity (e.g. a merger or demerger or the repayment or transfer of indebtedness) may also adversely affect the value of the Notes.

If a Credit Event occurs with respect to the Reference Entity or one of the Reference Entities, as applicable, within the Reference Period, the relevant Notes (or, in case of Basket Credit Linked Notes or Index Credit Linked Notes, the *pro rata* principal amount of such Notes allocated to the affected Reference Entity) will (a) cease to bear interest from the Scheduled Interest Payment Date immediately preceding the date the relevant Credit Event occurred or, as the case may be, the Issue Date and (b) be redeemed at the Redemption Amount or Partial Redemption Amount, as applicable, on the Redemption Date, each as specified in the relevant Final Terms. This Redemption Amount or Partial Redemption Amount will generally be considerably lower than the Specified Denomination of the Notes (or, in case of Basket Credit Linked Notes or Index Credit Linked Notes the *pro rata* principal amount by which the amount to be paid on the Scheduled Maturity Date is reduced) and may in certain circumstances be zero.

In the worst case scenario, (a) a Credit Event occurs prior to the first Scheduled Interest Payment Date with respect to the Reference Entity or each Reference Entity, as applicable, with the result that no interest payments on the Notes will be made, and (b) the Redemption Amount is determined to be zero. In such case, the Noteholder would suffer a total loss of its initial investment.

1.2 Additional Risks relating to Basket Credit Linked Notes and Index Credit Linked Notes

Noteholders of Basket Credit Linked Notes or Index Credit Linked Notes will be exposed to the credit risk of each Reference Entity contained in the underlying basket of Reference Entities. The Entity Weighting of each Reference Entity is specified in the relevant Final Terms and will be expressed as a percentage of the Specified Denomination of the relevant Notes. This percentage may be different for each such Reference Entity with the consequence that the occurrence of a Credit Event with respect to any particular Reference Entity may affect the value of the Notes to varying degrees. The greater the Entity Weighting of a Reference Entity, the greater the potential negative effect the occurrence of a Credit Event with respect to such Reference Entity will have on the Notes. In addition, the credit risk to Noteholders of Basket Credit Linked Notes or Index Credit Linked Notes may be increased as a result of, among other things, the concentration of the Reference Entities in a particular industry sector or geographic area or the exposure of the Reference Entities to similar financial or other risks.

1.3 Credit Events may occur prior to the Issue Date or Trade Date

The Reference Period during which a Credit Event has to occur in order to affect the Notes negatively as described above commences prior to the Issue Date, on the Credit Linkage Start Date. The Credit Linkage Start Date may be the Credit Event Backstop Date or the Trade Date, as specified in the relevant Final Terms. Neither the Calculation Agent nor the Issuer nor any of their respective affiliates has any responsibility to avoid or mitigate the effects of a Credit Event that has occurred prior to the Credit Linkage Start Date.

1.4 Risk relating to Determinations by Credit Derivatives Determinations Committees

The Credit Derivatives Determinations Committees make decisions on critical issues such as whether a Credit Event or Succession Event has occurred, which obligations are to be valued and whether an auction to determine the Final Price should take place. Credit Derivatives Determinations Committees are committees established by ISDA for purposes of reaching certain resolutions in connection with credit derivative transactions, as more fully described in the credit derivatives determinations committee rules, as published by ISDA on its website at <http://www.isda.org> (or any successor website thereto) from time to time and as amended from time to time in accordance with the terms thereof.

Noteholders will be bound by any such decisions and will have no recourse against the Issuer, the Calculation Agent or any institutions serving on Credit Derivatives Determinations Committees in the event of any loss under the Notes arising directly or indirectly from any action, determination or resolution taken or made by any such Credit Derivatives Determinations Committee. The composition of Credit Derivatives Determinations Committees will change from time

to time, as the term of a member institution may expire or a member institution may be required to be replaced. Noteholders will have no control over the process for selecting institutions to participate on Credit Derivatives Determinations Committees and, to the extent provided for in the Product Documentation, will be bound by the determinations made by such selected institutions.

Institutions serving on the Credit Derivatives Determinations Committees and the external reviewers, among others, disclaim any duty of care or liability arising in connection with the performance of duties or the provision of advice under the rules of such Credit Derivatives Determinations Committees, except in the case of gross negligence, fraud or wilful misconduct. Furthermore, the member institutions of the Credit Derivatives Determinations Committees from time to time will not owe any duty to a Noteholder, and a Noteholder may not be in a position to bring any legal claims with respect to actions taken by such member institutions under the rules of the relevant Credit Derivatives Determinations Committees. A Noteholder should also be aware that member institutions of the Credit Derivatives Determinations Committees have no duty to research or verify the veracity of information on which a specific determination is based. In addition, the Credit Derivatives Determinations Committees are not obliged to follow previous determinations and, therefore, could reach a conflicting determination for a similar set of facts. The Issuer currently is and is likely to be in the future a member of Credit Derivatives Determinations Committees (cf. section V. 5 (*Risk Factors relating to Potential Conflicts of Interest*) below).

1.5 Risks relating to the Calculation of the Final Price

Unless a fixed percentage is specified as Final Price in the relevant Final Terms, the Redemption Amount or Partial Redemption Amount payable by the Issuer to the Noteholders following the occurrence of a Credit Event with respect to a Reference Entity will be determined by the Calculation Agent on the basis of an Auction Final Price which can be described as Final Price applicable to credit derivatives transactions referencing such Reference Entity determined in an auction conducted by ISDA. Generally, the lower the Final Price, the lower the Redemption Amount or Partial Redemption Amount payable to the Noteholders and the higher the financial loss to the Noteholders. The Final Price determined in such auction may be significantly lower than the value of individual obligations of the Reference Entity which is subject to a Credit Event for a variety of reasons including, but not limited to, illiquidity of some obligations of such Reference Entity, distortions in the financial markets, technical aspects of the auction process and prevailing market conditions at the time of the auction.

In certain circumstances, where ISDA publicly announces that no auction will be held to determine an Auction Final Price in respect of a Credit Event and Reference Entity or no Auction Final Price is determined by ISDA within a certain period of time (as specified in section II. 2.2.3 (*Physical Redemption*)), the Redemption Amount or Partial Redemption Amount payable by the Issuer to the Noteholders following the occurrence of a Credit Event with respect to a Reference Entity will be determined by the Calculation Agent in accordance with a fallback determination method. This determination will not be based on an Auction Final Price as described in the previous paragraph but instead on one or more quotations for certain Selected Deliverable Obligations selected by the Issuer that are linked to the affected Reference Entity which are obtained by the Calculation Agent from dealers in obligations of the type of the Selected Deliverable Obligations. There is a risk that these quotations will be below the actual market value of the Selected Deliverable Obligations. Furthermore, such quotations may be affected by factors other than the occurrence of the relevant Credit Event and may vary widely from dealer to dealer and substantially between valuation dates. In addition, the Selected Deliverable Obligations may be illiquid and such illiquidity may be expected to be more pronounced following the occurrence of a Credit Event, thereby adversely affecting any determination of the value of such Selected Deliverable Obligations which in turn will have a negative impact on the Redemption Amount or Partial Redemption Amount payable to each Noteholder. Finally, as the Issuer is entitled to select the relevant Selected Deliverable Obligations for which quotations will be obtained in its discretion, it will likely select those Selected Deliverable Obligations that have the lowest value in the market at the relevant time (provided such obligations satisfy certain specifications and limits for qualification as Selected Deliverable Obligations). This would mean that Noteholders receive a Redemption Amount or Partial Redemption Amount which is determined based on obligations which have a lower value than other obligations of the Reference Entity which is subject to a Credit Event, thereby increasing the loss to Noteholders.

1.6 Right of the Issuer to redeem the Notes by Physical Settlement

If following a Credit Event with respect to a Reference Entity ISDA publicly announces that no auction will be held to determine an Auction Final Price in respect of such Credit Event and Reference Entity or no Auction Final Price is determined by ISDA within a certain period of time (as specified in section II. 2.2.3 (*Physical Redemption*)), the Issuer has the right, in lieu of redeeming or partially redeeming the Notes by cash settlement, to redeem or partially redeem the Notes by delivery of certain Selected Deliverable Obligations selected by the Issuer that are linked to the affected Reference Entity. As the Issuer is entitled to select the Selected Deliverable Obligations to be delivered in its discretion, it will likely select such Selected Deliverable Obligations that have the lowest value in the market at the relevant time (providing such obligations satisfy certain specifications and limits for qualification as Selected Deliverable Obligations) with the result that Noteholders receive obligations having a lower value than other obligations of the affected Reference Entity thereby increasing the loss to Noteholders.

Noteholders should be aware that a physical redemption of the Notes as described in the previous paragraph may also have unfavourable tax consequences. Furthermore, certain Noteholders may be prohibited or restricted from holding (whether directly or indirectly) some or all of the Selected Delivered Obligations. Neither the Issuer nor the Calculation Agent assumes any responsibility to monitor, anticipate or control whether a specific Noteholder is entitled to hold any of the Selected Deliverable Obligations or any assets delivered according to the terms of the Notes and shall not be liable for any damages that may occur due to the holding of any of such Selected Deliverable Obligations or such delivery.

1.7 Risk relating to the Issuer's discretion as to whether or not to serve a Credit Event Notice

In case (a) ISDA publicly announces that the relevant Credit Derivatives Determinations Committee has decided that it will not resolve the matter whether a Credit Event has occurred with respect to a Reference Entity; (b) there is no announcement by ISDA that the relevant Credit Derivatives Determinations Committee will decide whether a Credit Event has occurred with respect to such Reference Entity; or (c) the relevant event is solely a Restructuring, an event will constitute a Credit Event only if the Calculation Agent determines that such event constitutes a Credit Event and the Issuer gives a Credit Event Notice to the Noteholders. However, the Issuer is not obliged to give such a notice, and may wait for another Credit Event to occur before giving a Credit Event Notice. If a Credit Event occurs, but the Issuer chooses to wait until the occurrence of another Credit Event, the Redemption Amount or Partial Redemption Amount relating to the subsequent Credit Event may be lower than the Redemption Amount or Partial Redemption Amount that would have been payable if it had been determined with respect to the initial Credit Event. Furthermore, Noteholders are not entitled to deliver a Credit Event Notice themselves in order to benefit from a potentially higher Final Price. Neither the Issuer nor the Calculation Agent will have any liability to any Noteholder or any other person as a result of giving or not giving a Credit Event Notice with respect to the Notes.

1.8 Postponement of payments of Interest or Principal

If a Potential Credit Event (other than an event which would solely constitute a Restructuring) with respect to a Reference Entity has occurred and is continuing on a Scheduled Interest Payment Date, any payments of interest in respect of the Notes scheduled to be made on such date (or, in case of Basket Credit Linked Notes or Index Credit Linked Notes, the portion of the relevant payments of interest which relates to the *pro rata* principal amount of the Notes allocated to the affected Reference Entity) will be suspended until the relevant Credit Derivatives Determinations Committee either determines that the relevant Potential Credit Event does not constitute a Credit Event or announces that it will not resolve the matter whether a Credit Event has occurred. The Issuer will not owe Noteholders additional interest or other payments by reason of any such suspension and delay and such suspension will not constitute an event of default in respect of the Issuer. If subsequent to such a suspension of payments of interest, the Potential Credit Event results in a Credit Event, no payment of the suspended interest payment(s) will be made by the Issuer.

If no Credit Event has occurred on or prior to the Scheduled Maturity Date, but the Calculation Agent determines that a Potential Failure to Pay, Potential Repudiation/Moratorium or Potential Credit Event, as applicable, has occurred with

respect to a Reference Entity and is continuing on the Scheduled Maturity Date, the Scheduled Maturity Date and any payments of principal in respect of the Notes scheduled to be made on such date (or, in case of Basket Credit Linked Notes or Index Credit Linked Notes, any payments of principal in respect of the *pro rata* principal amount of the Notes allocated to the affected Reference Entity) will be postponed until ISDA announces that the relevant Credit Derivatives Determinations Committee resolved that a Credit Event has not occurred with respect to the relevant Reference Entity (provided that such announcement occurs before an Auction Final Price has been determined or any Valuation Date or Physical Redemption Date has occurred). The Issuer will not owe Noteholders additional interest or other payments by reason of any such postponement and delay and such postponement does not constitute an event of default in respect of the Issuer. If subsequent to the postponement of the redemption of the Notes (or, in case of Basket Credit Linked Notes or Index Credit Linked Notes, any payments of principal in respect of the *pro rata* principal amount of the Notes allocated to the affected Reference Entity) the Potential Failure to Pay, Potential Repudiation/Moratorium or Potential Credit Event, as applicable, results in a Credit Event, the Issuer will redeem the Notes (or, in case of Basket Credit Linked Notes or Index Credit Linked Notes, the *pro rata* principal amount of the Notes allocated to the affected Reference Entity) at the applicable Redemption Amount or Partial Redemption Amount on the Redemption Date specified in the relevant Final Terms.

1.9 Time delay before Notes are actually redeemed

Potential Noteholders should be aware that due to the mechanism used to determine the Redemption Amount or Partial Redemption Amount of the Notes (*i.e.* the use of an auction to determine an Auction Final Price or the determination of a Valuation Final Price based on quotations for certain Selected Deliverable Obligations), there may be a considerable delay between the occurrence of a Credit Event and the redemption of the Notes. Noteholders should therefore not rely on the ability to have the Redemption Amount or Partial Redemption Amount at their disposal for such period of time.

1.10 Performance of the Notes differs significantly from a direct Investment in a Reference Entity or Reference Entities or debt obligations issued by it/them

An investment in the Notes is not comparable to a direct investment in the Reference Entity or Reference Entities, as applicable, or in a debt obligation issued by such Reference Entity or Reference Entities (including its or their Reference Obligation(s)). The market value of the Notes may not have a direct relationship with the value of the obligations of the Reference Entity or Reference Entities, and changes in the value of such obligations will not necessarily result in a comparable change in the market value of the Notes. Following a Credit Event, the Redemption Amount of the Notes may be significantly lower than the residual value of a direct investment in the Reference Entity. In particular, any recoveries achieved by creditors after the determination of the Redemption Amount or Partial Redemption Amount payable to the Noteholders will not benefit holders of the Notes. As a result, the performance of the Notes may differ significantly from a direct investment in the Reference Entity or Reference Entities or in debt obligations issued by such Reference Entity or Reference Entities.

If the Final Price used to determine the Redemption Amount or Partial Redemption Amount with respect to the Notes following a Credit Event is fixed (as specified in the relevant Final Terms), it is likely that the Redemption Amount or Partial Redemption Amount, as applicable, will have no correlation to the residual value of obligations of the Reference Entity. Therefore, it is possible that the loss incurred by a Noteholder following the occurrence of a Credit Event in respect of a Reference Entity or one or more Reference Entities is significantly higher than the loss of an investor in a particular obligation of the Reference Entity.

The Notes do not represent a claim against the Reference Entity or Reference Entities, as applicable, and, in the event of any loss under the Notes, a Noteholder will have no right of recourse against any such Reference Entity or Reference Entities, nor will a Noteholder have any legal, beneficial or other interest whatsoever in the Reference Obligation or Reference Obligations. No Reference Entity is involved in the issuance of the Notes in any way and no Reference Entity has an obligation to consider the interests of the Noteholders in taking any corporate actions that might affect the value of the Notes. Any Reference Entity may, and is entitled to, take actions that will adversely affect the value of the

Notes. The purchase price paid for the Notes is paid to the Issuer and not to a Reference Entity, and the Notes do not represent a direct investment in any obligation of a Reference Entity or otherwise give the Noteholders any rights in the debt obligations of any Reference Entity. As an owner of Notes, a Noteholder will not have special voting rights or rights to receive distributions or any other rights that holders of debt obligations of the relevant Reference Entity or Reference Entities may have.

1.11 Occurrence of a Credit Event does not depend on Issuer suffering any Loss

The Issuer's obligations with respect to the Notes are independent of the existence or amount of the Issuer's and/or any of its affiliates' credit exposure to a Reference Entity and the Issuer and/or its affiliates need not suffer any loss or provide evidence of any loss as a result of the occurrence of a Credit Event.

1.12 Risks relating to the Occurrence of Succession Events

Potential Noteholders should note that the Reference Entity or Reference Entities, as applicable, may change from time to time upon the occurrence of Succession Events with respect to such Reference Entity or Reference Entities and, if more than one successor Reference Entity is determined as a result of any Succession Event, the terms and conditions of the Notes may, without the consent of the Noteholders, be deemed to be amended to reflect such additional Reference Entities.

The Calculation Agent will determine whether a Succession Event has occurred; provided that the Calculation Agent will not make such determination if, at such time, either ISDA has publicly announced that it has been requested to determine whether a Succession Event has occurred (until such time, if any, as ISDA subsequently publicly announces that the relevant Credit Derivatives Determinations Committee has decided not to resolve such matters) or ISDA has announced that the relevant Credit Derivatives Determinations Committee has resolved that no event that constitutes a Succession Event has occurred.

A Succession Event may result in an increase in the likelihood of the occurrence of a Credit Event with respect to the successor Reference Entity or Reference Entities, which may adversely affect the value of the Notes. In addition, a replacement of the Reference Entity or Reference Entities or other events may lead to the replacement of the Reference Obligation or Reference Obligations by a Substitute Reference Obligation or Substitute Reference Obligations. Such replacement may adversely affect the Redemption Amount payable to Noteholders should a Credit Event occur and/or the value of the Notes.

1.13 No representation or warranty by the Issuer with respect to a Reference Entity

Neither the Issuer nor any of its affiliates make or have made any representation whatsoever with respect to the Reference Entity or Reference Entities or any of its or their affiliates, any Reference Obligation or any other obligation thereof. The Issuer and its affiliates are not responsible for the Reference Entity's public disclosure of information. Potential Noteholders should obtain and evaluate any information concerning the Reference Entity or Reference Entities at least to the same extent as they would if they were investing directly in the Reference Entity or Reference Entities.

There is no guarantee, protection or assurance for purchasers of the Notes in respect of the credit or performance of the Reference Entity or Reference Entities, any Reference Obligation or any obligation thereof. Neither the Issuer nor any of its affiliates makes any representation as to the future performance of the Notes either in absolute terms or relative to other investments.

1.14 Transactions with and/or via the Reference Entity or Reference Entities

The Issuer, the Calculation Agent and any Paying Agent or any of their respective affiliates may deal in any obligations of or derivatives referencing the Reference Entity or any of the Reference Entities, as applicable, and may, where permitted, accept deposits from, make loans or otherwise extend credit to, and generally engage in any kind of commercial or investment banking or other business with, the Reference Entity or any of the Reference Entities or any affiliate of a Reference Entity or any other person or entity having obligations relating to a Reference Entity, and may act with respect to such business in the same manner as each of them would if the Notes did not exist, regardless of whether any such action might have an adverse effect on a Reference Entity or the position of any Noteholder (including, without limitation, any action which might constitute or give rise to a Credit Event).

1.15 Information with respect to any Reference Entity

The Issuer, the Calculation Agent or any of their respective affiliates may have acquired, or may during the term of the Notes acquire public or non-public information with respect to the Reference Entity or Reference Entities, as applicable, that they may not disclose. Potential Noteholders must therefore make an investment decision based upon their own due diligence and purchase the Notes with the knowledge that any public or non-public information that the Issuer, the Calculation Agent or any of their respective affiliates may have will not be disclosed to them. None of the Issuer, the Calculation Agent or any of their respective affiliates is under any obligation to (a) review on behalf of a Noteholder the business, financial conditions, prospects, creditworthiness, status or affairs of the Reference Entity or Reference Entities or conduct any investigation or due diligence into the Reference Entity or Reference Entities or (b) other than as may be required by applicable rules and regulations relating to the Notes, make available (i) any information relating to the Notes or (ii) any public or non-public information they may possess with respect to the Reference Entity or Reference Entities.

It is expected, however, that certain resolutions of the relevant Credit Derivatives Determinations Committee with regard to the determination of Credit Events or Succession Events will be announced on ISDA's website <http://www.isda.org> (or any successor website thereto) from time to time. The information contained on ISDA's website does not form part of the Product Documentation. Any failure on the part of Noteholders to make themselves aware of any such resolutions will have no effect on the Issuer's rights and obligations under the Notes and the Noteholders are solely responsible for obtaining such information.

Any information with regard to the Reference Entity or any of the Reference Entities (or any Reference Obligation) contained in the Product Documentation consists of extracts from or summaries of information that is publicly available in respect of such Reference Entity (or Reference Obligation) and is not necessarily the latest information available. The Issuer accepts responsibility for accurately reproducing publicly available information with regard to the Reference Entity or any of the Reference Entities (or any Reference Obligation) in the Product Documentation. No further or other responsibility (express or implied) in respect of information relating to a Reference Entity (or Reference Obligation) is accepted by the Issuer. The Issuer makes no representation that the information with regard to a Reference Entity (or Reference Entity), any other publicly available information or any other publicly available documents regarding a Reference Entity (or Reference Entity) are accurate or complete.

There can be no assurance that all events occurring prior to the Issue Date or Trade Date of the Notes that could affect the trading price of the Reference Entity or any of the Reference Entities (and therefore the trading price and value of the Notes) have been publicly disclosed. Subsequent disclosure of any such events or the disclosure or failure to disclose material future events concerning the Reference Entity or any of the Reference Entities could affect the trading price and value of the Notes.

1.16 The Credit Risk of the Reference Entity or Reference Entities may be influenced by external Factors

The Reference Entity or Reference Entities, as applicable, will be companies or sovereigns. In the case of a Reference Entity that is a company, its credit risk is not only expected to be significantly influenced by company-specific

conditions, but also by external national and international economic developments relating to the company's industry sector and political developments. The credit risk of a Reference Entity that is a sovereign will be particularly influenced by the stability or instability of such sovereign's political and economic systems.

If the Notes are linked to one or more emerging market Reference Entities, Noteholders should be aware that the political and economic situation in countries with emerging economies or stock markets may be undergoing significant evolution and rapid development, and such countries may lack the social, political and economic stability characteristics of more developed countries, including a significant risk of currency value fluctuations. Such instability may result from, among other things, authoritarian governments, or military involvement in political and economic decision-making, including changes or attempted changes in governments through extra-constitutional means, popular unrest associated with demands for improved political, economic or social conditions, internal insurgencies, hostile relations with neighbouring countries, and ethnic, religious and racial disaffections or conflict. Certain of such countries may in the past have failed to recognise private property rights and have at times nationalised or expropriated the assets of private companies. As a result, the risks from investing in those countries, including the risks of nationalisation or expropriation of assets, may be heightened. In addition, unanticipated political or social developments may affect Reference Entities in those countries. The small size and inexperience of the securities markets in certain countries and the limited volume of trading in securities may make the relevant Reference Obligation illiquid and more volatile than investments in more established markets. There may be little financial or accounting information available with respect to Reference Entities, and it may as a result be difficult to assess the value or prospects of such Reference Entities and therefore the Notes.

1.17 Market and Regulatory developments

Market and regulatory developments affecting credit derivatives transactions have in the past and may in the future lead to changes in the documentation or settlement of credit derivatives transactions. In some cases market participants may elect to apply revised terms to some or all of the existing transactions entered into between them and this might have a direct or indirect impact on, or result in changes in, the economic value of the Notes. There can be no assurance that the application of such revised terms will operate to improve the return to a Noteholder on its investment in the Notes, and they may indeed have a material and detrimental effect on such a return.

1.18 ISDA Definitions

The General Terms and Conditions do not incorporate by reference the ISDA Definitions and there are material differences between the General Terms and Conditions and the ISDA Definitions. Consequently, prospective Noteholders should be aware that an investment in the Notes is not the same as investment in a credit default swap that incorporates the ISDA Definitions. In particular, there are likely to be material differences in the amounts and timing of payments under the Notes as compared with the amounts and timings of payments under a market standard credit default swap (incorporating the ISDA Definitions) referencing the same Reference Entity or Reference Entities.

2 Risk Factors associated with certain features of the Notes

2.1 General Risks with regard to Notes with Interest Payments based on a Reference Rate

A key difference between Notes with one or more interest payments based on a Reference Rate ("**Floating Rate Notes**") and Notes with interest payments based only on a fixed rate ("**Fixed Rate Notes**") is that the interest payments based on a Reference Rate cannot be anticipated prior to the applicable fixing date with respect to the Reference Rate or, as the case may be, the relevant date on which such amounts are calculated pursuant to the relevant Final Terms. Due to varying interest rates, Noteholders are not able to determine a definite yield at the time they purchase Floating Rate Notes, which means that their return on investment cannot be compared to that of investments having fixed interest rates.

Future levels of Reference Rates are dependent upon the supply and demand for funding in the money market. The supply and demand in the money market on the other hand is dependent upon macroeconomic factors, liquidity in the financial markets, currency developments and political factors, or upon other factors, depending on the specific type of the Reference Rate. Such factors affecting the levels of a Reference Rate may adversely affect the return (if any) on Floating Rate Notes. Depending upon the development of the Reference Rate(s), it is possible that the applicable fixing for one or more Interest Periods during the term of the Floating Rate Notes may be equal to zero, or, even if the fixing is above zero, it may be substantially lower than the interest rate that would be payable on other long-term securities of the Issuer. In the worst case, the Interest Rate during any Interest Period where interest payments are based on a Reference Rate could be as little as zero.

2.2 Change in methodology or discontinuance of the Reference Rate(s)

The levels of Reference Rates are generally calculated by an independent organization or a governmental authority, often based on information provided by market participants who may include the Issuer. The entity publishing the level of a Reference Rate can modify the calculation method for determining such level or make other changes to the methodology that could adversely affect the level of the Reference Rate. Such entity may also alter, discontinue or suspend calculation or dissemination of the Reference Rate. Such entity is not involved in the offer and sale of the Notes and has no obligation to invest therein. Finally, such entity publishing the level of a Reference Rate may take any actions in respect of the Reference Rate without regard to the interest of the Noteholders, and any of these actions could adversely affect the market value of the Notes.

Any contribution of information by the Issuer or any of its affiliates to the organization(s) determining the fixing of a Reference Rate is based on the Issuer's discretion and such view and information that the Issuer has available at such time. In contributing information to such organization the Issuer has no responsibility to take into account the interests of any Noteholder.

2.3 Historical Levels of the Reference Rate(s) should not be taken as Indication of Future Levels of such Reference Rate(s)

With respect to Floating Rate Notes, the historical levels of a Reference Rate should not be taken as an indication of the future levels of such Reference Rate during the term of the Floating Rate Notes. Changes in the level of a Reference Rate may affect the value of the Floating Rate Notes, but it is impossible to predict whether the level of such Reference Rate will rise or fall.

2.4 The Profit Potential of the Notes may be capped

Potential holders of Notes with a Maximum Interest Rate (as specified in the relevant Final Terms) should be aware that the profit potential in relation to such Notes is capped.

2.5 Risks associated with an Issuer's Call Option

In case of Notes which provide for an Issuer call option, the Issuer is entitled to redeem the Notes in whole but not in part prior to the Scheduled Maturity Date. The Issuer is likely to exercise its call option when its cost of borrowing is lower than the yield on such Notes and/or the market credit spread of a Reference Entity is lower than the market credit spread of such Reference Entity at the Issue Date. As a result, (a) the market value of such Notes generally will not rise substantially above the optional early redemption price and (b) holders of such Notes may incur additional transaction costs as a consequence of reinvesting proceeds received upon early redemption and any such reinvestment may be on less favourable terms than the relevant Noteholder's initial investment in the Notes. If the Issuer exercises its call option, Noteholders should note that no interest payments that would otherwise have been due after the date of such early redemption will be paid and, if so specified in the applicable Final Terms, no accrued and unpaid interest as of the date of such early redemption will be paid.

3 Market Risk Factors

3.1 Volatility of the Value of the Notes

The market value of, and return on, the Notes will be affected by a number of factors, which may be unpredictable or beyond the Issuer's control, and which may offset or magnify each other. Such factors may cause the value of the Notes to fall significantly and/or cause substantial volatility in the value of the Notes. These factors include, without limitation, the following:

- (a) **Credit spread and creditworthiness of the Reference Entity or any of the Reference Entities:** If the creditworthiness of the Reference Entity or any of the Reference Entities deteriorates, the credit spread of such Reference Entity generally increases, which will reduce the value of the Notes. For instance, a deterioration in the credit rating of the Reference Entity or any of the Reference Entities will most likely result in an increase in the credit spreads of such Reference Entity and thus have a negative impact on the market value of the Notes. Furthermore, if a Credit Event with respect to a Reference Entity occurs or if there is a market perception that such an event is likely to occur, the market value of the Notes is expected to fall significantly. The credit spread of a Reference Entity may also increase for a variety of other reasons, including general developments in the credit markets or political developments in the region or country such Reference Entity is located or doing business, which may not be foreseeable on the Trade Date or the Issue Date;
- (b) **Credit spread and creditworthiness of the Issuer:** In a similar way as the credit spread and the creditworthiness of the Reference Entity or any of the Reference Entities influences the market value of the Notes, the market value is also influenced by the credit spread and creditworthiness of the Issuer (cf. section V. 4.3 (*Creditworthiness of the Issuer*) below);
- (c) **Interest rates:** Changes in interest rates generally affect the market value of financial instruments such as the Notes. For instance, if interest rates rise, the market value of Fixed Rate Note and Floating Rate Notes with a cap will fall;
- (d) **Remaining time to maturity:** Generally, the longer the time-to-maturity of the Notes, the greater the impact of changes in interest rates, credit spreads and other factors on the market value of the Notes and thus the greater its volatility;
- (e) **Liquidity:** In situations where the financial markets in general or in respect of the Issuer or the Reference Entity or any of the Reference Entities become illiquid, the bid/offer spreads in financial instruments are increasing and the market value of the Notes is expected to fall;
- (f) **Supply and demand:** Supply and demand for the Notes, for obligations of or exposure to the Reference Entity or any of the Reference Entities and for obligations of or exposure to the Issuer (including inventory positions of any

market maker) may impact the value of the Notes. In particular, if the supply increases and/or the demand falls, the market value of the Notes is expected to fall;

- (g) **Economic, financial, political or regulatory events or judicial decisions** that affect the Issuer, a Reference Entity or the financial markets generally.

No assurance can be given with regard to the effect that any combination of risk factors may have on the value of the Notes.

In the ordinary course of their businesses, the Issuer and its affiliates may from time to time express views on expected movements in (a) credit spreads of a Reference Entity or any of its affiliates; (b) share and bond prices related to a Reference Entity or any of its affiliates; (c) and/or foreign currency exchange rates. These views are sometimes communicated to customers of the Issuer. However, these views, depending upon world-wide economic, political and other developments, may vary over differing time-horizons and are subject to change. Moreover, other professionals in the market place may at any time have significantly different views from those of the Issuer and its affiliates. Noteholders should derive information about the financial markets from multiple sources and should investigate the financial markets. Noteholders should not rely on any views expressed by the Issuer or its affiliates in the ordinary course of the Issuer's or its affiliates' businesses.

Noteholders should also note that research reports may be modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding the Notes. Any of these activities may affect the market value of the Notes.

3.2 No Secondary Market and no or limited liquidity

Potential Noteholders should note that there is generally no secondary market for credit linked notes and in case a secondary market develops there is no assurance that it will continue. The Issuer is under no obligation to provide a bid or offer price to notes issued by itself or an affiliate. Therefore potential Noteholders should only make an investment therein if they can hold the Notes until their maturity date and do not need to be able to sell them prior to their maturity date. Noteholders should also be aware of the circumstance that pricing information regarding the Notes may be difficult to obtain due to the non-existence of a secondary market.

In case a Noteholder is able to observe a secondary market or the Issuer chooses to provide liquidity by means of bid and/or offer prices for the Notes, even though they are under no legal obligation to do so, the spread between the bid and offer prices may vary and may in certain circumstances be significantly expanded. Consequently, if Noteholders are able to sell their Notes, it may be at a price that is substantially lower than their actual value at the time of such sale, which may lead to losses to those Noteholders.

3.3 Commission, Fees and other Costs affecting the value of the Notes

The Issue Price of the Notes may include amounts in respect of certain commissions paid with respect to the distribution of the Notes, together with certain fees and costs incurred by the Issuer as well as profit to the Issuer. Thus the price at which a potential bidder (including, without limitation, the Issuer) may be willing to purchase the Notes in the secondary market (if any), all other factors being equal, is likely to be less than the original Issue Price, since the original Issue Price included, and secondary market prices are likely to exclude, those commissions, fees, costs and the projected profit. Consequently, the spread between bid and offer prices, to the extent observable, are likely to be widened as a result of the commission, fees, costs and projected profit included in the original Issue Price.

3.4 Secondary Market Prices differ from values of Pricing Models

If a Noteholder receives a bid price for the Notes, it may be significantly different from a theoretical price determined by pricing models used by the Issuer or any other market participant. Therefore, if the Issuer provides valuations to

Noteholders which are generally based on such models, Noteholders should not assume that they will be able to dispose the Notes at prices equal or close to such valuation.

3.5 Price Source and Settlement Disruption Events

The Notes may be subject to Price Source Disruption Events or Settlement Disruption Events, as set out in section III. 5 (*Price Source Disruption Event*) and section III. 6 (*Settlement Disruption Event*) or the relevant Final Terms. The Calculation Agent (in case of Price Source Disruption Events) or the Issuer or the Paying Agent (in case of Settlement Disruption Events) may determine in its sole and absolute discretion that a Price Source Disruption Event or a Settlement Disruption Event has occurred or exists at any time. Any such determination may lead to

- (a) a postponement or a suspension of payments under the Notes; and/or
- (b) a determination of payments under the Notes based on other parameters or information; and/or
- (c) a redemption of the Notes on a date occurring earlier or later than the envisaged Redemption Date; and/or
- (d) a redemption which is made in another way as envisaged (e.g. by physical delivery of assets instead of a cash settlement or *vice versa*),

any may in turn have an adverse effect on the value of the Notes. Neither the Issuer nor the Calculation Agent has any liability *vis-à-vis* the Noteholders for any losses incurred by them as a consequence of the determination that a Price Source Disruption Event or a Settlement Disruption Event has occurred.

Further, the methodology, content, composition, constitution or administrator of a rate, quote, price or other information that is required to make a determination in respect of the Notes may change. In such case, the Calculation Agent may reasonably determine a successor of or alternative for such rate, quote, price or other information which is commonly used by market participants as successor or alternative rate, quote, price or other information. Any such determination of a successor of or alternative for such rate, quote, price or other information may have an adverse effect on the value of the Notes. Any such determination made by the Calculation Agent is binding and the Calculation Agent does not have any liability in respect thereof.

4 Risk Factors relating to the Issuer

As a global financial services provider, the business activities, profitability and ultimately the creditworthiness of the Issuer are affected by the prevailing market situation. Different risk factors can impair the company's ability to implement business strategies and may have a direct, negative impact on earnings. Accordingly, the Issuer's revenues and earnings and the financial standing of the Issuer are and have been subject to fluctuations. The revenues and earnings figures from a specific period, thus, are not evidence of sustainable results and should not be used for any projections of the Issuer's financial situation and perception in the market.

4.1 General insolvency risk

Each Noteholder bears the general risk that the financial situation of the Issuer could deteriorate. Unless otherwise stated in the relevant Final Terms, the Notes constitute immediate, unsecured and unsubordinated obligations of the Issuer, which, in particular in the case of insolvency of the Issuer, rank *pari passu* with each other and all other current and future unsecured and unsubordinated obligations of the Issuer, with the exception of those that have priority due to mandatory statutory provisions. The obligations of the Issuer created by the Notes are not covered by a deposit guarantee or a compensation scheme. In case of an insolvency of the Issuer, Noteholders may, consequently, suffer a total loss of their investment in the Notes.

4.2 Restructuring or insolvency proceedings opened by FINMA

Pursuant to article 25 et seq. of the Swiss Banking Act, FINMA has broad statutory powers to take measures and actions in relation to the Issuer if it is (a) overindebted; (b) has serious liquidity problems; or (c) fails to fulfil the applicable adequacy provisions after expiry of a deadline set by FINMA. If one of these prerequisites is met, FINMA is authorized (i) to open restructuring proceedings (*Sanierungsverfahren*); or (ii) to open liquidation (bankruptcy) proceedings (*Bankenkonkurs*) in respect of; and/or impose protective measures (*Schutzmassnahmen*) in relation to, the Issuer. The Swiss Banking Act, as last amended as of 1 September 2011 and 1 March 2012, grants significant discretion to FINMA in connection with the aforementioned proceedings and measures. In particular, protective measures that may be imposed by FINMA include a broad variety of measures such as a bank moratorium (*Stundung*) or a maturity postponement (*Fälligkeitsaufschub*) and may be ordered by FINMA either on a stand-alone basis or in connection with restructuring or liquidation proceedings. In restructuring proceedings, the resolution plan may, among other things, provide for (a) the transfer of the Issuer's assets or parts thereof with assets and debt as well as contracts to another entity; (b) the conversion of the Issuer's debt or other obligations (including its obligations under the Notes) into equity; and/or (c) potentially haircuts on obligations of the Issuer (including its obligations under the Notes). As of the date of these General Terms and Conditions, and pending issuance of the new related implementing ordinances, there is no clear guidance on what impact the revised regime would have on the rights of the Noteholders, or the ability of the Issuer to make payments under the Notes, if one or several of the measures under the revised insolvency regime were imposed in connection with a restructuring of the Issuer.

4.3 Creditworthiness of the Issuer

The general perception of the Issuer's creditworthiness may adversely affect the value of the Notes. This perception depends on a variety of factors, which may be unpredictable or beyond the Issuer's control, and which may offset or magnify each other. In general, these factors include, without limitation, the following:

- (a) **Credit ratings:** Rating agencies such as Standard & Poor's, Fitch and Moody's assign ratings to the Issuer and its affiliates. Any downgrade of the Issuer's or any of its affiliates' rating may negatively affect the perception of the Issuer's creditworthiness;
- (b) **Regulatory and legislative changes:** The Issuer's creditworthiness may be negatively affected by regulatory and/or legislative changes affecting financial institutions. These may include measures such as (but not limited to) requirements to adopt structural and other changes designed to reduce systemic risk and to make major financial institutions easier to wind down or break up;
- (c) **Reputation of the Issuer:** The occurrence of an event or circumstance which leads to a reputational damage for the Issuer will negatively affect the business and prospects of the Issuer and therefore may have an adverse effect on the Issuer's (current or future) creditworthiness ;
- (d) **Capital strength of the Issuer:** The capital strength of the Issuer is measured by the BIS tier 1 ratio and total capital ratios and determined by RWA and eligible capital. Both RWA and eligible capital are subject to change and could be reduced, *inter alia*, if UBS experiences net losses or if reductions in the ratings of securitization exposures or adverse currency movements occur. Such a reduction could also lead to a more negative assessment of the Issuer's creditworthiness;
- (e) **Market conditions and economic climate:** The financial services industry and the Issuer generally prosper in conditions of economic growth, stable geopolitical conditions, transparent, liquid and buoyant capital markets and positive investor sentiment. On the other hand, an economic downturn (precipitated by e.g. geopolitical events, changes in monetary or fiscal policy, trade imbalances, natural disasters, pandemics, civil unrest, war or terrorism), inflation or a financial crisis as it is currently the case can negatively affect the Issuer's revenues and ultimately its capital base;

- (f) **Legacy and other risk positions:** The Issuer holds legacy and other risk positions which may further fall in value or in respect of which expected cash flows do not materialize. This may have a negative effect on the Issuer's capital base and revenue situation;
- (g) **Currency fluctuations:** Due to the Issuer's global presence, changes in foreign exchange rates may have an adverse effect on the Issuer's reported income and expenses, and on other reported figures such as invested assets, balance sheet assets, RWA and tier 1 capital;
- (h) **Risk management and control processes:** Credit is an integral part of many of the Issuer's retail, wealth management and investment bank activities. To be successful over time and to avoid or limit potential losses in its trading and counterparty credit businesses, the Issuer must balance the risks it takes against the returns it generates. Therefore, it must diligently identify, assess, manage and control its risks, not only in normal market conditions but also as they might develop under more extreme (stressed) conditions, when concentrations of exposures can lead to severe losses. If the Issuer's risk management and control processes fail or prove ineffective in identifying, assessing, managing and controlling such risks, the Issuer could suffer material losses;
- (i) **Valuation techniques:** Where price information is not available for certain instruments, the Issuer applies valuation techniques to measure such instruments. In the case of positions for which some or all of the input required for the valuation techniques are not observable or have limited observability, the Issuer uses valuation models with non-market observable input. Such models have inherent limitations; different assumptions and inputs would generate different results, and these differences could have a significant impact on the Issuer's financial results;
- (j) **Client flows:** A net outflow of client assets in the Issuer's wealth management and asset management businesses could have a significant adverse effect on the Issuer's financial results. Such outflow could result from a number of different factors, including, but not limited to, losses of the Issuer, reputational damage, the loss of client advisors, difficulty in recruiting qualified client advisors or developments concerning the Issuer's cross-border private banking business;
- (k) **Liquidity and funding management:** The viability of the Issuer's business depends upon the availability of funding sources and the Issuer's success depends upon its ability to obtain funding in a way that enables the Issuer to efficiently support its asset base in all market conditions. If such funding sources become unavailable or too costly for the Issuer, this may have a direct impact on any bid price of the Notes;
- (l) **Operational risks:** The Issuer's operational risk management and control system and processes are designed to help ensure that the risks associated with the Issuer's activities, including those arising from process error, failed execution, unauthorized trading, fraud, system failures, cyber-attacks and failure of security and physical protection, are appropriately controlled. If the Issuer's internal controls fail or prove ineffective in identifying and remedying such risks, the Issuer could suffer operational failure that might result in material losses;
- (m) **Legal claims and regulatory risks and restrictions:** Due to the nature of the Issuer's business, the Issuer is subject to regulatory oversight and liability risk. The Issuer is involved (and may in the future be involved) in a variety of claims disputes, legal proceedings and government investigations in jurisdictions where it is active. These proceedings expose or may expose the Issuer to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil penalties, in addition to potential regulatory restrictions on the Issuer's businesses. The outcome of these matters as well as of any future matters of the same nature cannot be predicted and they could adversely affect the Issuer's future business and financial results. Furthermore, any such matters are generally public and may result in reputational damage which again may negatively impact the Issuer's business and ultimately the perception of its creditworthiness;
- (n) **Ability to identify or capture revenue or competitive opportunities, or retain and attract qualified employees:** The financial services industry is characterized by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. The Issuer faces competition at the

level of local markets and individual business lines, and from global financial institutions that are comparable to the Issuer in their size and breadth. The Issuer's competitive strength and market position could be eroded if the Issuer is unable to identify market trends and developments, does not respond to them by devising and implementing adequate business strategies, is restricted by regulatory constraints which may be more severe than regulatory constraints for financial institutions outside Switzerland or is unable to attract or retain the qualified employees needed to carry them on which in turn would negatively affect the Issuer's business performance;

- (o) **Changes in accounting standards:** Changes in the accounting standards applicable to the Issuer may mean that the Issuer's reported results and financial position differ in the future from those expected. Furthermore, such changes may affect the Issuer's regulatory capital and ratios as well its reported results and financial position as a whole;
- (p) **Different regulatory, legal and tax regimes:** Due to the fact that the Issuer is subject to many different legal, tax and regulatory regimes, its ability to execute its global strategy depends on obtaining and maintaining local regulatory approvals. Furthermore, changes in local tax laws or regulations and their enforcement may affect the ability or the willingness of the Issuer's clients to do business with the Issuer or the viability of the Issuer's strategies and business models;
- (q) **Effect of taxes on financial results:** Any deferred tax assets the Issuer has recognized on its balance sheet in respect of prior years' tax losses are based on profitability assumptions over a defined time horizon. If the business plan earnings and assumptions in future periods substantially deviate from the current outlook, the amount of deferred tax assets may need to be adjusted in the future. This could include write-offs of deferred tax assets through the income statement if actual results come in substantially below the business plan forecasts and/or if future business plan forecasts are revised downward substantially and such write-offs could negatively affect the creditworthiness of the Issuer.

No assurance can be given with regard to the effect that any combination of risk factors may have on the creditworthiness of the Issuer and therefore the value of the Notes.

For a more detailed and comprehensive description of the above factors, Noteholders are referred to the Issuer's latest quarterly financial results accessible on the internet on website <http://www.ubs.com/global/en.html> (or any successor website thereto).

5 Risk Factors relating to Potential Conflicts of Interest

5.1 Participation in transactions related to the Notes, receipt of information related to a Reference Entity and publication

In the ordinary course of their businesses, the Issuer and any of its affiliates may participate in transactions including, without limitation, derivative transactions related to the Notes, the Reference Entity or any of the Reference Entities or any of its/their affiliates, for their own account or for account of a customer. Such transactions may not serve to benefit the Noteholders and may have a positive or negative effect on the value of the Notes. Furthermore, the Issuer and/or any of its affiliates may enter into hedging transactions with respect to the Reference Entity or any of the Reference Entities, their obligations or related derivatives and affiliates of the Issuer may become counterparties in hedging transactions relating to obligations of the Issuer stemming from the Notes. As a result, conflicts of interest can arise between affiliates of the Issuer, as well as between these affiliates and Noteholders, in relation to obligations regarding the calculation of the price of the Notes and other associated determinations.

Furthermore, the Issuer and its affiliates may

- (a) issue other derivative instruments relating to the Reference Entity or any of the Reference Entities or a Reference Obligation, which may negatively affect the value of the Notes;

- (b) whether by virtue of the types of relationships described herein or otherwise, at any time, be in possession of information in relation to the Reference Entity or any of the Reference Entities that is or may be material in the context of the issuance of the Notes and that may or may not be publicly available or known to the Noteholders, and the Notes do not create any obligation on the part of the Issuer or its affiliates to disclose to any Noteholder any such information (whether or not confidential);
- (c) publish research reports on the Reference Entity or any of the Reference Entities;
- (d) when holding a Reference Obligation, exercise their voting rights with respect to such Reference Obligation; and/or
- (e) engage in any kind of commercial or investment banking or other business with the Reference Entity or any of the Reference Entities or any of its/their affiliates,

and with regard to any of these activities, the Issuer's or any of its affiliate's interests may be adverse to those of the Noteholders and its or their actions might have an adverse effect on the position of any Noteholder. In no event shall the Issuer or any of its affiliates be liable for any loss incurred by Noteholders.

5.2 Credit Derivatives Determinations Committees

The Issuer (or any of its affiliates) may act as voting members on a Credit Derivatives Determinations Committee and as a consequence thereof, they may take certain actions that may influence the process and decisions of such Credit Derivatives Determinations Committee. Such actions may be adverse to the interests of the Noteholders and may result in an economic benefit accruing to the Issuer or its respective affiliates, as the case may be. In taking action relating to Credit Derivatives Determinations Committees, the Issuer or Calculation Agent or one of their affiliates, as the case may be, shall have no obligation to consider the interests of the Noteholders and may ignore any conflict of interest arising due to their responsibilities under the Notes.

5.3 Participation by the Issuer and its Affiliates in pricing, valuation or auction processes

The Issuer and certain affiliates of the Issuer are members of ISDA and similar industry associations. In such capacity, the Issuer and such affiliates may be involved in the pricing and valuation process. Furthermore, there is a probability that the Issuer or any of its affiliates would participate as bidders in any auction used to determine the Auction Final Price with respect to a Reference Entity, and, therefore, their actions at such an auction may influence the Auction Final Price. In deciding whether to participate as bidders in such an auction or in taking any action with respect to such an auction, none of the Issuer, the Calculation Agent or any of their affiliates will be under an obligation to consider the interests of the Noteholders and each of them may ignore any conflict of interest arising due to its responsibilities under the Notes.

5.4 Issuer acting as Calculation Agent under the Notes

The Issuer or one of its affiliates will act as Calculation Agent under the Notes. In performing its duties in its capacity as Calculation Agent, the Issuer (or such affiliate) may have interests adverse to the interests of the Noteholders, and this may affect the Noteholders' return on the Notes (particularly where the Calculation Agent is entitled to exercise discretion). In addition, the Issuer and its affiliates may act in other capacities with regard to the Notes, such as Paying Agent and/or Index Sponsor (as specified in the relevant Final Terms).

5.5 Distributors or other entities involved in the offering or listing of the Notes

Potential conflicts of interest may arise in connection with the Notes if a distributor placing the Notes or other entity involved in the offering or listing of the Notes is acting pursuant to a mandate granted by the Issuer or any of its

affiliates or receives commissions and/or fees based on services performed in connection with, or related to the outcome of, the offering or listing of the Notes.

5.6 The Issuer as major participant in the Reference Rate markets

Potential Noteholders should note that Issuer and certain of its affiliates are regular participants in the reference rate markets and in the ordinary course of their business may effect transactions for their own account or for the account of their customers and make investments relating to Reference Rate(s) and related derivatives. Such transactions may affect the relevant Reference Rate(s), the market value or liquidity of the Notes and could be adverse to the interests of the Noteholders. Neither the Issuer nor any of its affiliates has any duty to enter into such transactions in a manner which is favourable to the Noteholders.

6 Risk Factors relating to the Investment in the Notes in General

6.1 The Notes are not subject to a government guarantee or government compensation or insurance scheme

An investment in the Notes will not be covered by any compensation or insurance scheme (such as a bank deposit protection scheme) of any government agency in Switzerland or any other jurisdiction and the Notes do not have the benefit of any government guarantee. The Notes are obligations of the Issuer only and Noteholders must look solely to the Issuer for the performance of the Issuer's obligations under the Notes. In the event of the insolvency of UBS AG, a Noteholder may lose all or some of its investment therein (*cf.* section V. 4.1 (*General insolvency risk*) above).

6.2 Determinations by the Calculation Agent

The Calculation Agent has broad discretionary authority to make various determinations and adjustments under the Notes, any of which may have an adverse effect on the market value thereof or amounts payable or other benefits to be received thereunder. Any such discretion exercised by, or any calculation made by, the Calculation Agent (in the absence of proven or manifest error) shall be final and binding on the Issuer and all Noteholders.

6.3 Possible Exposure to Exchange Rate Risks

The Settlement Currency of the Notes may not be the currency of the home jurisdiction of an investor therein. Exchange rates between currencies are determined by factors of supply and demand in the international currency markets, which are in particular influenced by macro economic factors, speculation and central bank and government intervention (including the imposition of currency controls and restrictions). Therefore, fluctuations in exchange rates may adversely affect the return of the Notes in such other currency.

Where the calculation of any amount payable under the Notes involves a currency conversion, fluctuations in the relevant exchange rate will directly affect the market value of the Notes and the risk of loss may not depend solely on the behaviour of the Reference Entity or Reference Entities or the performance the Reference Rate (if any).

6.4 Determination of Spot Exchange Rates

There is no centralized market for interbank foreign exchange trading. The Calculation Agent will determine, if applicable, the value of the spot rate by reference to Bloomberg, Reuters or other electronic data providers available at the relevant time or based on hedging transactions traded by the Issuer and its affiliates in the interbank foreign exchange. Due to the high volatility in foreign exchange rates, the spot rate may have been determined at a time at which it was disadvantageous to the interests of the Noteholders. Neither the Calculation Agent nor the Issuer has any obligation or responsibility *vis-à-vis* the Noteholders in this respect and the Calculation Agent will not review any other source of information on transactions in the relevant spot exchange rates.

6.5 Inflation Risk

Inflation risk is the risk of future money depreciation. The real yield on an investment is reduced by inflation. Consequently, the higher the rate of inflation, the lower the real yield on the Notes will be. If the inflation rate is equal to or higher than the yield under the Notes, the real yield on the Notes will be zero or even negative. Further, the real economic value of the Redemption Amount or Partial Redemption Amount, as applicable, will be influenced by the rate of inflation and the term of the Notes. Consequently, the higher the rate of inflation and the longer the term of the Notes, the lower the real economic value of the Redemption Amount or Partial Redemption Amount, as applicable, will be.

6.6 Effect of Transaction Costs and Charges

When the Notes are issued or sold, several types of incidental costs, fees, commissions and profits are included in the purchase price of the Notes. Such costs, fees, commissions and profits may include (a) distribution fees to intermediaries, brokers or other distributors and financial advisors; (b) commissions paid internally from one department to another department (e.g. sales department) of the Issuer; (c) hedging costs and brokerage fees incurred by the Issuer in connection with the issuance of the Notes; (d) a profit priced into the Issue Price for the benefit of the Issuer; (e) other costs incurred by the Issuer in connection with the issuance of the Notes (including, without limitation, costs for external legal and tax advice). Such costs, fees, commissions and profits reduce the value of the Notes in the sense that a potential bid price will exclude such elements and therefore is likely to be lower than the issue price or offer price of the Notes.

6.7 Reinvestment Risk

Potential Noteholders may be exposed to risks connected to the reinvestment of cash resources freed from the Notes, in particular as the result of an early redemption of the Notes. The return a Noteholder will receive depends not only on the market value of, and payments (or other benefits) to be received under, the Notes, but also on whether or not such payments (or other benefits) can be reinvested on the same or similar terms as provided for in the Notes.

6.8 Purchase of Notes on Credit

Noteholders financing the purchase of the Notes with loans should note that, should their expectations fail to materialise, they would not only have to bear the loss resulting from the investment in the Notes, but also have to pay interest on the loan as well as repay the principal amount. It is therefore imperative that Noteholders verify their financial resources in advance, in order to determine whether they would be able to pay the interest and repay the loan at short notice should they incur losses instead of realising the anticipated profit.

6.9 Risks associated with the Clearing and Settlement of the Notes

As the Notes may be held by or on behalf of Euroclear, Clearstream Frankfurt, Clearstream Luxembourg and/or SIX SIS or by or on behalf of any other relevant banking system, Noteholders will have to rely on the procedures of the

relevant clearing system(s) for transfer, payment and communication with the Issuer. The Issuer will not be held liable under any circumstances for any acts and omissions of Euroclear, Clearstream Frankfurt, Clearstream Luxembourg, SIX SIS or any other relevant clearing system or for any losses incurred by a Noteholder as a result of such acts or omissions (including, without limitation, failures to pay any amounts due under the Notes or to deliver notices from the Issuer to the Noteholders).

6.10 Effect of Hedging Transactions by the Issuer on the Notes

The Issuer may use a portion of the total proceeds from the sale of the Notes for transactions to hedge the risks of the Issuer relating to the Notes. In such case, the Issuer or one of its affiliates may conclude transactions that correspond to the obligations of the Issuer under the Notes. On or before any date on which certain determinations pursuant to the terms and conditions applicable to the Notes will be made, the Issuer or one of its affiliates may take the steps necessary for closing out any such hedging transactions. It cannot, however, be ruled out that such determinations will be influenced by such hedging transactions or close-outs of such transactions. If an Early Redemption Event or a Credit Event occurs, the Issuer is expected to unwind such hedging transactions or enter into offsetting transactions. Any losses incurred by the Issuer as a result of such transactions will be charged to the Redemption Amount or Partial Redemption Amount of the Notes and thus be borne by the Noteholders.

6.11 Limited Ability for Noteholders to hedge the risks of the Notes

The ability to eliminate or to restrict the initial risks of the Notes arising from their purchase by concluding any hedging transactions during their lifetime depends mainly on the market conditions and the terms and conditions of the Notes. As a consequence, such transactions may be concluded at unfavourable market prices to the effect that corresponding losses may arise. Noteholders should therefore not rely on the ability to conclude transactions at any time during the term of the Notes that will allow them to offset or limit relevant risks.

6.12 Change of Law and Legality of Purchase

The Notes will be governed by Swiss law in effect from time to time. No assurance can be given as to the impact of any possible judicial decision or change to Swiss law (or other law applicable in Switzerland) or administrative practice after the Issue Date of the Notes. Furthermore, the Issuer has and assumes no responsibility for the lawfulness of the acquisition of the Notes by Noteholders or prospective purchasers of the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for the compliance by Noteholders with any law, regulation or regulatory policy applicable to them.

6.13 Taxation

All payments in respect of the Notes are subject to any applicable fiscal or other laws, regulations and directives. Potential Noteholders should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the countries to and from which the Notes are transferred, the country in which the Noteholder is resident or other applicable jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for financial instruments such as the Notes.

The tax considerations with respect to Switzerland set forth in the Product Documentation reflect the general view of the Issuer based on the legislation applicable at the date of issuance of the Product Documentation. It cannot, however, be ruled out that the tax treatment by the Swiss tax authorities and courts could be interpreted differently. Additionally, the tax considerations set forth in the Product Documentation may not be used as the sole basis for the decision to invest in the Notes from a tax perspective, since the individual situation of each potential Noteholder must also be taken into account. Thus, the considerations regarding taxation contained in the Product Documentation do not constitute any sort of material information or tax advice nor are they in any way to be construed as a representation or warranty with respect to specific tax consequences and each Noteholder should consult its own

personal tax advisors before making any decision to purchase the Notes. The Issuer does not accept any liability for adverse tax consequences of an investment in the Notes.

There can be no assurance that, as a result of any change in any applicable law, rule or regulation or interpretation thereof, the payments under the Notes might not in the future become subject to withholding tax or other tax charges, or if the Notes are subject to withholding tax, the payments under the Notes might not in the future become subject to withholding tax at an increased rate. If withholding tax or similar tax charges are imposed on any payments under the Notes, the Issuer will not gross-up such payments but may deduct such tax charges from the payment amounts. Each Noteholder therefore bears the full tax risk on the Notes.

In the Event that the Issuer

- (a) on the occasion of a payment or delivery due under the Notes, has or will become obliged to pay additional amounts as a result of (i) any change in, or amendment to, the laws or regulations of any jurisdiction in which the Issuer is or becomes subject to tax (or any political subdivision or any authority thereof or therein having power to tax) or (ii) any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures (but not the substitution of the Issuer) available to it,

it may redeem the Notes at the Early Redemption Amount at any time on notice to the Noteholders (*cf.* section V. 6.16 (*Early Redemption Events*) below).

6.14 Risks relating to U.S. Foreign Account Tax Compliance Withholding

The following terms apply under general condition of the final regulations on sections 1471-1474 of the U.S. Internal Revenue Code (Chapter 4) and/or any applicable Intergovernmental Agreement on implementing FATCA.

The Issuer and other financial institutions through which payments on the Notes are made may be required to withhold at a rate of up to 30 per cent. on all, or a portion of, payments made on or after 1 January 2017 in respect of any Notes which are issued (or materially modified) after 1 January 2013 or that are treated as equity for U.S. federal tax purposes whenever issued, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "**FATCA**", the Foreign Account Tax Compliance Act).

The Issuer is a foreign financial institution ("**FFI**") for the purposes of FATCA. If the Issuer becomes obliged to provide certain information on its account holders to the U.S. Internal Revenue Service ("**IRS**") then withholding may be triggered if: (i) the Issuer has a positive "passthru payment percentage" (as determined under FATCA), and (ii) (a) an investor does not provide information sufficient for the Issuer to determine whether or not the investor is a U.S. person or should otherwise be treated as holding a "U.S. reportable Account" by the Issuer, (b) an investor does not consent, where necessary, to have its information disclosed to the IRS or (c) any FFI that is an investor, or through which payment on the Notes is made, is not a Participating FFI.

The application of FATCA to interest, principal or other amounts paid with respect to the Notes is not yet clear. If an amount in respect of FATCA or as required under an intergovernmental approach to FATCA were to be deducted or withheld from interest, principal or other payments on the Notes, the Issuer will have no obligation to pay additional amounts or otherwise indemnify a Noteholder for any such withholding or deduction by the Issuer, a Paying Agent or any other party, to any person where such person (other than where such person is acting as an agent of the Issuer) is not entitled to receive payments free of such withholding. As a result, investors may, if FATCA is implemented as currently proposed by the IRS or in consequence of the implementation of an intergovernmental approach, receive less interest or principal than expected.

The Issuer does not expect in practice that payments made either by it or by its Paying Agents in relation to the Notes held in clearing systems will be subject to FATCA withholding as it is expected that the Paying Agents and the relevant clearing systems will be Participating FFIs to the extent necessary to avoid being subject to FATCA withholding. However, it is possible that other parties may be required to withhold on payments on account of FATCA as set out above.

The discussion in relation to the FATCA rules above is based on proposed regulations and preliminary guidance. **Noteholders should, consequently, be aware that payments under the Notes may under certain circumstances be subject to U.S. withholding under FATCA.**

6.15 No Reliance

The Issuer and all of its affiliates disclaim any responsibility to advise Noteholders of the risks and investment considerations associated with the purchase of the Notes as they may exist at the Issue Date of the Notes or from time to time thereafter.

Noteholders will at all times be solely responsible for making their own independent appraisal of, and investigation into, the business, financial condition, prospects, creditworthiness, status and affairs of the Issuer and the Reference Entity or any of the Reference Entities. None of the Issuer, the Calculation Agent or any Paying Agent or any other agent nor any affiliate of any of them (or any person or entity on their behalf) will have any responsibility or duty to make any such investigations, to keep any such matters under review, to provide the Noteholders with any information in relation to such matters or to advise as to the accompanying risks.

6.16 Early Redemption Events

Upon the occurrence of a Change in Law, Hedging Disruption, Increased Costs of Hedging or Tax Event (as specified in the relevant Final Terms and as defined in section IV (*Definitions*)), the Issuer has the right to redeem the Notes in accordance with section II. 2.5 (*Early Redemption*) and the provisions set out in the relevant Final Terms. In the event an Early Redemption Event occurs and the Issuer exercises such early redemption right, the Noteholders will thereafter no longer be able to realise any expectations for a gain in the value of the Notes.

If the Issuer exercises such early redemption right, Noteholders should be aware that the Early Redemption Amount is dependent on then prevailing market conditions and may therefore be considerably less than the expected Redemption Amount if the Notes had been outstanding until their Scheduled Maturity Date and no payments that would otherwise have been due after the date of the Early Redemption Date will be made.

6.17 Rating of the Notes

A rating of the Notes, if any, may not adequately reflect all risks of the investment in the Notes. Equally, ratings may be suspended, downgraded or withdrawn. Such suspension, downgrading or withdrawal may have an adverse effect on the market value and trading price of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

APPENDIX 1: SETTLEMENT MATRIX

CORPORATES:

Transaction Type	NORTH AMERICAN CORPORATE ¹	EUROPEAN CORPORATE	SUBORDINATED EUROPEAN INSURANCE CORPORATE	EMERGING EUROPEAN CORPORATE LPN	EMERGING EUROPEAN CORPORATE	LATIN AMERICA CORPORATE B	LATIN AMERICA CORPORATE BL	AUSTRALIA CORPORATE	NEW ZEALAND CORPORATE	JAPAN CORPORATE	SINGAPORE CORPORATE	ASIA CORPORATE	SUKUK CORPORATE
All Guarantees:	Not Applicable	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable
Credit Events:	Bankruptcy Failure to Pay Restructuring, if specified as applicable in the relevant Final Terms	Bankruptcy Failure to Pay Restructuring	Bankruptcy Failure to Pay Restructuring	Bankruptcy Failure to Pay Grace Period Extension: Applicable Obligation Acceleration Repudiation/Moratorium Restructuring Multiple Holder Obligation: a) Not Applicable with respect to Obligation Category "Bonds" b) Applicable with respect to Obligation Category "Loans"	Bankruptcy Failure to Pay Grace Period Extension: Applicable Obligation Acceleration Repudiation/Moratorium Restructuring Multiple Holder Obligation: a) Not Applicable with respect to Obligation Category "Bonds" b) Applicable with respect to Obligation Category "Loans"	Bankruptcy Failure to Pay Grace Period Extension: Applicable Obligation Acceleration Repudiation/Moratorium Restructuring Multiple Holder Obligation: Not Applicable	Bankruptcy Failure to Pay Grace Period Extension: Applicable Obligation Acceleration Repudiation/Moratorium Restructuring	Bankruptcy Failure to Pay Restructuring	Bankruptcy Failure to Pay Restructuring	Bankruptcy Failure to Pay Restructuring Multiple Holder Obligation: Not Applicable	Bankruptcy Failure to Pay Restructuring	Bankruptcy Failure to Pay Restructuring	Bankruptcy Failure to Pay Grace Period Extension: Applicable Obligation Acceleration Repudiation/Moratorium Restructuring Multiple Holder Obligation: a) Not Applicable with respect to Obligation Category "Bonds" b) Applicable with respect to Obligation Category "Loans"
Obligation Category:	Borrowed Money	Borrowed Money	Borrowed Money	Bond or Loan	Bond or Loan	Bond	Bond or Loan	Borrowed Money	Borrowed Money	Borrowed Money	Bond or Loan	Bond or Loan	Bond or Loan

Obligation Characteristics:	None	None	None	Not Subordinated Not Domestic Law Not Domestic Currency Not Domestic Issuance	Not Subordinated Not Domestic Law Not Domestic Currency Not Domestic Issuance	Not Subordinated Not Domestic Currency Not Domestic Law Not Domestic Issuance	Not Subordinated Not Sovereign Lender Not Domestic Currency Not Domestic Law Not Domestic Issuance	None	None	Not Subordinated	Not Subordinated Specified Currency: Standard Specified Currencies & Domestic Currency Not Sovereign Lender	Not Subordinated Not Sovereign Lender Not Domestic Currency Not Domestic Issuance Not Domestic Law	Not Subordinated Not Domestic Law Not Domestic Currency Not Domestic Issuance
Deliverable Obligation Category:	Bond or Loan	Bond or Loan	Bond or Loan	Bond or Loan	Bond or Loan	Bond	Bond or Loan	Bond or Loan	Bond or Loan	Bond or Loan	Bond or Loan	Bond or Loan	Bond or Loan
Deliverable Obligation Characteristics:	Not Subordinated Specified Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency Not Domestic Issuance Not Contingent Transferable Not Bearer Assignable Loan Consent Required Loan Not Domestic Law	Not Subordinated Specified Currency Not Domestic Issuance Not Contingent Transferable Not Bearer Assignable Loan Consent Required Loan Not Domestic Law	Not Subordinated Specified Currency Not Domestic Law Not Contingent Not Domestic Issuance Transferable Not Bearer	Not Subordinated Specified Currency Not Sovereign Lender Not Domestic Law Not Contingent Not Domestic Issuance Assignable Loan Consent Required Loan Transferable Not Bearer	Not Subordinated Specified Currency: Standard Specified Currencies & Domestic Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency: Standard Specified Currencies & Domestic Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency: Standard Specified Currencies & Domestic Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency: Standard Specified Currencies & Domestic Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency Not Sovereign Lender Not Domestic Law Not Contingent Not Domestic Issuance Assignable Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency Not Domestic Law Not Contingent Not Domestic Issuance Not Bearer Assignable Loan Consent Required Loan
¹ Investment Grade & High Yield													

SOVEREIGNS:

Transaction Type	WESTERN EUROPEAN SOVEREIGN	LATIN AMERICA SOVEREIGN	EMERGING EUROPEAN & MIDDLE EASTERN SOVEREIGN	AUSTRALIA SOVEREIGN	NEW ZEALAND SOVEREIGN	JAPAN SOVEREIGN	SINGAPORE SOVEREIGN	ASIA SOVEREIGN	SUKUK SOVEREIGN
All Guarantees:	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable	Applicable
Credit Events:	Failure to Pay Repudiation/Moratorium Restructuring	Failure to Pay Grace Period Extension: Applicable Obligation Acceleration Repudiation/Moratorium Restructuring Multiple Holder Obligation: Not Applicable	Failure to Pay Grace Period Extension: Applicable Obligation Acceleration Repudiation/Moratorium Restructuring Multiple Holder Obligation: Not Applicable	Failure to Pay Repudiation/Moratorium Restructuring	Failure to Pay Repudiation/Moratorium Restructuring	Failure to Pay Repudiation/Moratorium Restructuring Multiple Holder Obligation: Not Applicable	Failure to Pay Repudiation/Moratorium Restructuring	Failure to Pay Repudiation/Moratorium Restructuring	Failure to Pay Grace Period Extension: Applicable Obligation Acceleration Repudiation/Moratorium Restructuring Multiple Holder Obligation: Not Applicable
Obligation Category:	Borrowed Money	Bond	Bond	Borrowed Money	Borrowed Money	Borrowed Money	Bond or Loan	Bond or Loan	Bond
Obligation Characteristics:	None	Not Subordinated Not Domestic Currency Not Domestic Law Not Domestic Issuance	Not Subordinated Not Domestic Currency Not Domestic Law Not Domestic Issuance	None	None	None	Not Subordinated Specified Currency: Standard Specified Currencies & Domestic Currency Not Sovereign Lender	Not Subordinated Not Sovereign Lender Not Domestic Currency Not Domestic Law Not Domestic Issuance	Not Subordinated Not Domestic Law Not Domestic Currency Not Domestic Issuance
Deliverable Obligation Category:	Bond or Loan	Bond	Bond	Bond or Loan	Bond or Loan	Bond or Loan	Bond or Loan	Bond or Loan	Bond

Deliverable Obligation Characteristics:	Specified Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency Not Domestic Law Not Contingent Not Domestic Issuance Transferable Not Bearer	Not Subordinated Specified Currency Not Domestic Law Not Contingent Not Domestic Issuance Transferable Not Bearer	Not Subordinated Specified Currency: Standard Specified Currencies & Domestic Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency: Standard Specified Currencies & Domestic Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Specified Currency Not Contingent Assignable Loan Consent Required Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency Specified Currencies & Domestic Currency Not Sovereign Lender Not Contingent Assignable Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency Not Sovereign Lender Not Domestic Law Not Contingent Not Domestic Issuance Assignable Loan Transferable Maximum Maturity: 30 years Not Bearer	Not Subordinated Specified Currency Not Domestic Law Not Contingent Not Domestic Issuance Transferable Not Bearer
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APPENDIX 2: Description of UBS AG

Description of UBS AG based on 2Q13 report

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1. Overview

EU Prospectus
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Summary
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("Summary
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UBS AG with its subsidiaries (together, "UBS Group", "Group" or "UBS") draws on its 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. UBS's business strategy is centered on its pre-eminent global wealth management businesses and its leading universal bank in Switzerland. These businesses, together with a client-focused Investment Bank and a strong, well-diversified Global Asset Management business, will enable UBS to expand its premier wealth management franchise and drive further growth across the Group. Headquartered in Zurich and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centers.	B.15
On 30 June 2013 UBS's BIS Basel III common equity tier 1 capital ratio ¹ was 16.2% on a phase-in basis and 11.2% on a fully applied basis, invested assets stood at CHF 2,348 billion, equity attributable to UBS shareholders was CHF 47,073 million and market capitalization was CHF 61,737 million. On the same date, UBS employed 60,754 people ² .	N/A (for items B.7 / B.12, see separate file "Selected consolidated financial data")
<p>The rating agencies Standard & Poor's, Fitch Ratings and Moody's have published credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to fulfill in a timely manner payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing. The ratings from Fitch Ratings and Standard & Poor's may be attributed a plus or minus sign, and those from Moody's a number. These supplementary attributes indicate the relative position within the respective rating class. UBS AG has long-term senior debt ratings of A (stable outlook) from Standard & Poor's, A2 (stable outlook) from Moody's and A (stable outlook) from Fitch Ratings.</p> <p>The rating from Fitch Ratings has been issued by Fitch Ratings Limited, and the rating from Standard & Poor's has been issued by Standard & Poor's Credit Market Services Europe Limited. Both are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the "CRA Regulation"). The rating from Moody's has been issued by Moody's Investors Service, Inc., which is not established in the EEA and is not certified under the CRA Regulation, but the rating it has issued is endorsed by Moody's Investors Service Ltd., a credit rating agency established in the EEA and registered under the CRA Regulation.</p>	B.17
No profit forecasts or estimates are included in this document.	B.9
No recent events particular to UBS AG have occurred, which are to a material extent relevant to the evaluation of UBS AG's solvency.	B.13

¹ The BIS Basel III common equity tier 1 capital ratio is the ratio of BIS Basel III common equity tier 1 capital to BIS Basel III risk-weighted assets. The information provided on a fully applied basis does not consider the effects of the transition period, during which new capital deductions are phased in and Basel III ineligible capital instruments are phased out. For information as to how BIS Basel III common equity tier 1 capital is calculated, refer to the "Capital management" section of UBS's second quarter 2013 report.

² Full-time equivalents.

2. Corporate Information

	Summary Element
The legal and commercial name of the company is UBS AG.	B.1
The company was incorporated under the name SBC AG on 28 February 1978 for an unlimited duration and entered in the Commercial Register of Canton Basel-City on that day. On 8 December 1997, the company changed its name to UBS AG. The company in its present form was created on 29 June 1998 by the merger of Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872). UBS AG is entered in the Commercial Registers of Canton Zurich and Canton Basel-City. The registration number is CH-270.3.004.646-4.	B.2
UBS AG is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations and Swiss Federal Banking Law as an <i>Aktiengesellschaft</i> , a corporation that has issued shares of common stock to investors.	B.2
According to Article 2 of the Articles of Association of UBS AG, dated 27 February 2013 ("Articles of Association"), the purpose of UBS AG is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad.	B.15
The addresses and telephone numbers of UBS AG's two registered offices and principal places of business are: Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, telephone +41 44 234 1111; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, telephone +41 61 288 5050.	B.2

UBS AG shares are listed on the SIX Swiss Exchange and the New York Stock Exchange.

3. Business Overview

3.1 Organizational Structure of UBS AG

Summary
Element

UBS AG is the parent company of the UBS Group. The objective of the UBS's group structure is to support the business activities of the parent company within an efficient legal, tax, regulatory and funding framework. None of the individual business divisions of UBS or the Corporate Center are legally independent entities; instead, they primarily perform their activities through the domestic and foreign offices of the parent bank. In cases where it is impossible or inefficient to operate via the parent bank, due to local legal, tax or regulatory provisions, or where additional legal entities join the Group through acquisition, the business is operated on location by legally independent group companies.	B.5
UBS AG is the parent company of the UBS Group. As such, to a certain extent, it is dependent on certain of its subsidiaries.	B.14

UBS AG's significant subsidiaries as of 31 December 2012 are listed in its annual report as of 31 December 2012 published on 14 March 2013 (the "Annual Report 2012"), on pages 441-442 (inclusive) of the English version.

3.2 Business Divisions and Corporate Center

UBS operates as a group with five business divisions (Wealth Management, Wealth Management Americas, the Investment Bank, Global Asset Management and Retail & Corporate) and a Corporate Center. Each of the business divisions and the Corporate Center are described below. A description of the Group's strategy can be found in the Annual Report 2012, on pages 24-31 (inclusive) of the English version; a description of the businesses, strategies, clients, organizational structures, products and services of the business divisions and the Corporate Center can be found in the Annual Report 2012, on pages 35-51 (inclusive) of the English version.

3.2.1 Wealth Management

Wealth Management provides comprehensive financial services to wealthy private clients around the world - except those served by Wealth Management Americas. Its clients benefit from the entire spectrum of UBS resources, ranging from investment management to estate planning and corporate finance advice, in addition to specific wealth management products and services. An open product platform provides clients with access to a wide array of products from third-party providers that complement UBS's own product lines.

3.2.2 Wealth Management Americas

Wealth Management Americas provides advice-based solutions through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra high net worth and high net worth individuals and families. It includes the domestic US business, the domestic Canadian business and international business booked in the US.

3.2.3 Investment Bank

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. It offers investment banking and capital markets, research, equities, foreign exchange, precious metals and tailored fixed income services in rates and credit through its two business units, Corporate Client Solutions and Investor Client Services. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities.

3.2.4 Global Asset Management

Global Asset Management is, in its own opinion, a large-scale asset manager with businesses diversified across regions, capabilities and distribution channels. It offers investment capabilities and styles across all major traditional and alternative asset classes including equities, fixed income, currencies, hedge funds, real estate, infrastructure and private equity that can also be combined in multi-asset strategies. The fund services unit provides professional services, including fund set-up, accounting and reporting for both traditional investment funds and alternative funds.

3.2.5 Retail & Corporate

Retail & Corporate provides comprehensive financial products and services to retail, corporate and institutional clients in Switzerland and maintains, in its own opinion, a leading position in these client segments. It constitutes a central building block of UBS's universal bank model in Switzerland, delivering growth to UBS's other businesses. It supports them by cross-selling products and services provided by UBS's asset-gathering and investment banking businesses, by referring clients to them and by transferring private clients to Wealth Management when client wealth increases.

3.2.6 Corporate Center

The Corporate Center – Core Functions provides control functions for the business divisions and the Group in such areas as risk control and legal and compliance, as well as finance, which includes treasury services, funding, balance sheet and capital management. In addition, it provides all logistics and support functions including information technology, human resources, corporate development, Group regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical and information security, offshoring and Group-wide operations. Corporate Center – Core Functions allocates most of its treasury income, operating expenses and personnel associated with these activities to the businesses based on capital and service consumption levels. Corporate Center – Non-core and Legacy Portfolio comprises the non-core businesses previously part of the Investment Bank and the Legacy Portfolio, including certain centrally managed positions such as the SNB StabFund option.

3.3 Competition

The financial services industry is characterized by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. UBS faces competition at the level of local markets and individual business lines, and from global financial institutions that are comparable to UBS in their size and breadth. Barriers to entry in individual markets and pricing levels are being eroded by new technology. UBS expects these trends to continue and competition to increase.

3.4 Recent Developments

Results as of and for the quarter ended 30 June 2013, as presented in UBS's second quarter report 2013 (including unaudited consolidated financial statements)

Second-quarter 2013 net profit attributable to UBS shareholders was CHF 690 million compared with CHF 988 million in the first quarter of 2013. On an adjusted basis³, the second-quarter profit before tax was CHF 1,022 million compared with CHF 1,901 million in the prior quarter. On a reported basis, profit before tax was CHF 1,020 million compared with CHF 1,447 million in the prior quarter. Operating income decreased by CHF 386 million, primarily due to lower net interest and trading income. Operating expenses increased by CHF 42 million, predominantly as a result of higher general and administrative expenses, partly offset by decreased variable compensation performance awards. In the second quarter, UBS recorded a tax expense of CHF 125 million compared with CHF 458 million in the prior quarter. Net profit attributable to preferred noteholders was CHF 204 million compared with zero in the first quarter.

Wealth Management's profit before tax in the second quarter was CHF 557 million compared with CHF 664 million in the prior quarter. Adjusted profit before tax decreased by CHF 83 million to CHF 607 million and included a charge of CHF 104 million in relation to the Swiss-UK tax agreement. Excluding also this charge, profit before tax was CHF 711 million, an increase of CHF 21 million from the previous quarter. Operating income was CHF 1,953 million compared with CHF 1,913 million in the prior quarter. The gross margin on invested assets decreased 1 basis point to 90 basis points as average invested assets increased faster than income. Operating expenses increased by CHF 146 million to CHF 1,396 million, mainly due to the charge in relation to the Swiss-UK tax agreement. All regions contributed to net new money inflows of CHF 10.1 billion. The cost / income ratio increased to 71.5% from 64.9%. Adjusted for restructuring costs of CHF 50 million in the second quarter and CHF 26 million in the prior quarter, the cost / income ratio increased to 69.0% from 63.6%.

Wealth Management Americas' profit before tax was USD 258 million compared with USD 251 million in the prior quarter. Adjusted for restructuring charges, profit before tax increased by USD 7 million to USD 269 million from USD 262 million. Operating income was USD 1,792 million compared with USD 1,737 million in the prior quarter. Operating expenses were USD 1,534 million compared with USD 1,486 million. Net new money inflows declined to USD 2.8 billion from USD 9.2 billion, partly reflecting client withdrawals of around USD 2.5 billion associated with annual income tax payments. The gross margin on invested assets was unchanged at 80 basis points. The gross margin from recurring income increased 3 basis points due to higher managed account fees and interest income, while the gross margin from non-recurring income decreased 3 basis points due to lower transaction-based revenue and lower realized gains from sales of financial investments held in the available-for-sale portfolio. The cost / income ratio was 85.6%, broadly in line with 85.5% in the prior quarter. On an adjusted basis, the cost / income ratio was 85.0% compared with 84.9% in the prior quarter.

The Investment Bank recorded a profit before tax of CHF 775 million compared with CHF 977 million in the prior quarter. Adjusted profit before tax was CHF 806 million compared with CHF 928 million. Adjusted return on attributed equity for the quarter was 38% compared with 47% in the prior quarter. Operating income was CHF 2,250 million compared with CHF 2,783 million in the prior

³ Unless otherwise indicated, throughout this section "adjusted" figures exclude each of the following items, to the extent applicable, on a Group and business division level: own credit gain on financial liabilities designated at fair value for the Group of CHF 138 million in 2Q13 (CHF 181 million loss in 1Q13), net restructuring charges of CHF 140 million for the Group in 2Q13 (net charges of CHF 246 million in 1Q13), a gain of CHF 34 million on the disposal of Global Asset Management's Canadian domestic business in 1Q13, a gain on the sale of the remaining proprietary trading business in the Investment Bank of CHF 55 million and an associated foreign currency translation loss of CHF 24 million in Corporate Center – Core Functions in 1Q13, and a net loss of CHF 92 million for the Group incurred on the buyback of debt in a public tender offer in 1Q13.

quarter. Both Corporate Client Solutions and Investor Client Services reported lower revenues. Total operating expenses decreased 18% to CHF 1,475 million from CHF 1,806 million, mainly due to lower variable compensation accruals. Adjusted for restructuring charges of CHF 31 million in the second quarter compared with CHF 6 million in the first quarter, operating expenses decreased 20% to CHF 1,444 million from CHF 1,800 million. Fully applied Basel III RWA decreased slightly to CHF 67 billion as of 30 June 2013 from CHF 69 billion as of 31 March 2013. Funded assets, which represent total assets excluding positive replacement values and collateral delivered against over-the-counter derivatives, decreased to CHF 179 billion as of 30 June 2013 from CHF 186 billion as of 31 March 2013. The cost / income ratio increased to 65.7% from 64.8%. On an adjusted basis, the cost / income ratio improved to 64.3% from 65.9%.

Global Asset Management's profit before tax was CHF 138 million compared with CHF 190 million in the prior quarter. Adjusted for a gain of CHF 34 million on the disposal of its Canadian domestic business in the first quarter and restructuring charges in both quarters, profit before tax was CHF 152 million compared with CHF 160 million, mainly due to higher operating expenses. Operating expenses were CHF 352 million compared with CHF 327 million in the first quarter. Operating income was CHF 489 million compared with CHF 517 million in the prior quarter. Excluding money market flows, net new money inflows from third parties were CHF 1.6 billion compared with CHF 4.2 billion in the prior quarter. Net new money outflows from clients of UBS's wealth management businesses, excluding money market flows, were CHF 3.0 billion compared with net inflows of CHF 0.9 billion in the first quarter. The total gross margin was 33 basis points compared with 35 basis points in the first quarter. Excluding the gain on disposal of the Canadian domestic business in the first quarter, the gross margin remained unchanged as the effect of higher net management fees due to higher average invested assets was offset by lower performance fees. The cost / income ratio was 72.0% compared with 63.2% in the first quarter. Adjusted for restructuring charges and the gain on disposal of the Canadian domestic business, the cost / income ratio was 69.1%, compared with 66.9% in the prior quarter.

Retail & Corporate's profit before tax was CHF 377 million compared with CHF 347 million in the prior quarter. Adjusted profit before tax increased to CHF 390 million from CHF 362 million, reflecting higher operating income and broadly stable operating expenses. Operating income was CHF 948 million compared with CHF 919 million in the prior quarter. Net new business volume growth was negative 2.7%, reflecting a small number of corporate outflows including an outflow related to the issuance of a banking license to Swiss PostFinance, compared with positive 4.7% in the previous quarter. The net interest margin increased 3 basis points to 157 basis points, reflecting 2% higher net interest income and a slightly higher average loan volume. The cost / income ratio improved by 2.2 percentage points to 60.0%, mainly reflecting higher income. Adjusted for restructuring charges, the cost / income ratio improved to 58.7% from 60.6%.

Corporate Center – Core Functions recorded a loss before tax of CHF 142 million compared with a loss before tax of CHF 719 million in the previous quarter. On an adjusted basis, the loss before tax was CHF 275 million compared with a loss before tax of CHF 398 million in the prior quarter. Treasury income remaining in Corporate Center – Core Functions after allocations to the business divisions was negative CHF 136 million compared with negative CHF 255 million in the prior quarter. Expenses remaining after allocations to the business divisions and Corporate Center – Non-core and Legacy Portfolio declined by CHF 113 million.

Corporate Center – Non-core and Legacy Portfolio recorded a loss before tax of CHF 927 million in the second quarter of 2013 compared with a loss before tax of CHF 245 million in the previous quarter. On an adjusted basis, the result before tax was a loss of CHF 909 million compared with an adjusted loss before tax of CHF 84 million in the prior quarter. This was mainly due to higher charges

for provisions for litigation, regulatory and similar matters, lower revenues in rates and credit portfolios within Non-core, a lower gain from the revaluation of the option to acquire the SNB StabFund's equity, and an impairment charge related to certain disputed receivables as well as a negative debit valuation adjustment on UBS's derivatives portfolio. Balance sheet assets declined by CHF 82 billion. Fully applied BIS Basel III RWA decreased by CHF 17 billion to CHF 78 billion.

Balance sheet: As of 30 June 2013, UBS's balance sheet stood at CHF 1,129 billion, a decrease of CHF 85 billion from 31 March 2013. Funded assets, which represent total assets excluding positive replacement values and collateral delivered against over-the-counter derivatives, were reduced by CHF 32 billion to CHF 765 billion, mainly in the Corporate Center – Non-core and Legacy Portfolio and the Investment Bank, primarily due to a reduction in trading portfolio assets and reflecting the ongoing implementation of UBS's strategy.

Capital management: UBS's phase-in BIS Basel III common equity tier 1 (CET1) ratio was 16.2% as of 30 June 2013, an increase of 0.9 percentage points from 31 March 2013. The phase-in BIS Basel III CET1 capital decreased by CHF 0.8 billion to CHF 39.4 billion at the end of the second quarter of 2013. The phase-in Basel III RWA decreased by CHF 19.8 billion to CHF 242.6 billion. On a fully applied basis, the BIS Basel III CET1 ratio increased 1.1 percentage points to 11.2% and the fully applied RWA declined to CHF 239.2 billion. Consistent with what UBS has said previously, UBS expects to reach its 13% BIS Basel III fully applied CET1 ratio target in 2014.

UBS expects to exercise the option to acquire the SNB StabFund's equity in the fourth quarter of 2013, and estimates that this transaction will boost its fully applied BIS Basel III CET1 capital ratio by an additional 70-90 basis points in the fourth quarter.

Invested assets: Group invested assets stood at CHF 2,348 billion at the end of the second quarter, a decrease of CHF 25 billion on the prior quarter. Of these, invested assets in Wealth Management decreased by CHF 8 billion to CHF 862 billion as negative market performance of CHF 19 billion more than offset net new money inflows of CHF 10 billion and positive currency translation effects of CHF 1 billion. In Wealth Management Americas, invested assets decreased by CHF 2 billion to CHF 843 billion. In US dollar terms, invested assets increased by USD 1 billion to USD 892 billion, reflecting continued net new money inflows, mostly offset by negative market performance of USD 2 billion. Global Asset Management's invested assets decreased by CHF 13 billion to CHF 586 billion due to negative currency translation effects of CHF 6 billion, negative market movements of CHF 5 billion and net new money outflows.

3.5 Trend Information

Summary
Element

<p>As stated in the outlook statement presented in UBS AG's second quarter 2013 report, including unaudited consolidated financial statements and issued on 30 July 2013, at the end of the second quarter, the market reaction to the eventual end of quantitative easing in the US served as a reminder that looser monetary policy across the globe has not resolved the underlying challenges related to structural fiscal and economic issues. For the first half of 2013, UBS's revenue growth and business flows evidence the fact that UBS continued to manage its businesses effectively in challenging market conditions. However, for the third quarter of 2013, client confidence and activity levels could be impacted further by the continued absence of sustained and credible improvements to unresolved European sovereign debt and banking system issues and US fiscal issues, and by the mixed outlook for global growth. This would make improvements in prevailing market conditions unlikely and,</p>	<p>B.4a / B.4b</p>
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<p>together with the seasonal decline in activity levels traditionally associated with the summer holiday season, would consequently generate headwinds for revenue growth, net interest margins and net new money. Nevertheless, UBS remains confident that its wealth management businesses will continue to attract net new money, reflecting new and existing clients' steadfast trust in the firm, and that the actions it has taken will ensure the firm's long-term success and will deliver sustainable returns for its shareholders going forward.</p>	
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4. Administrative, Management and Supervisory Bodies of UBS AG

UBS AG is subject to, and acts in compliance with, all relevant Swiss legal and regulatory requirements regarding corporate governance. In addition, as a foreign company with shares listed on the New York Stock Exchange ("NYSE"), UBS AG is in compliance with all relevant corporate governance standards applicable to foreign listed companies.

UBS AG operates under a strict dual board structure, as mandated by Swiss banking law. This structure establishes checks and balances and preserves the institutional independence of the Board of Directors ("BoD") from the day-to-day management of the firm, for which responsibility is delegated to the Group Executive Board ("GEB") under the leadership of the Group Chief Executive Officer ("Group CEO"). The BoD decides on the strategy of the Group upon the recommendation of the Group CEO, and supervises and monitors the business, whereas the GEB, headed by the Group CEO, has executive management responsibility. The functions of Chairman of the BoD and Group CEO are assigned to two different people, ensuring a separation of power. The supervision and control of the GEB remains with the BoD. No member of one board may be a member of the other.

The Articles of Association and the Organization Regulations of UBS AG with their annexes govern the authorities and responsibilities of the two bodies.

4.1 Board of Directors

The BoD is the most senior body of UBS AG. The BoD consists of at least six and a maximum of twelve members. All the members of the BoD are elected individually by the Annual General Meeting of Shareholders ("AGM") for a term of office of one year. The BoD's proposal for election must be such that three-quarters of the BoD members will be independent. Independence is determined in accordance with the Swiss Financial Market Supervisory Authority (FINMA) circular 08/24, the NYSE rules and the rules and regulations of other securities exchanges on which UBS shares are listed, if any, applying the strictest standard. The Chairman is not required to be independent.

The BoD has ultimate responsibility for the success of the UBS Group and for delivering sustainable shareholder value within a framework of prudent and effective controls. It decides on UBS Group's strategic aims and the necessary financial and human resources upon recommendation of the Group CEO and sets the UBS Group's values and standards to ensure that its obligations to its shareholders and others are met.

The BoD meets as often as business requires, and at least six times a year.

4.1.1 Members of the Board of Directors

Members and business addresses	Title	Term of office	Current principal positions outside UBS AG
<p>Axel A. Weber</p> <p>UBS AG, Bahnhofstrasse 45, CH-8098 Zurich</p>	Chairman	2014	Member of the Group of Thirty, Washington, D.C.; research fellow at the Center for Economic Policy Research, London, and the Center for Financial Research, Cologne; member of the board of the Institute of International Finance and senior research fellow at the Center for Financial Studies, Frankfurt/Main; member of the Monetary Economics and International Economics Councils of the <i>Verein für</i>

			<i>Socialpolitik</i> ; member of the Advisory Board of the German Market Economy Foundation; member of the Advisory Council of the Goethe University, Frankfurt/Main.
Michel Demaré UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Independent Vice Chairman	2014	Chairman of the board of Syngenta, a member of the IMD Foundation, Lausanne, and of SwissHoldings, Berne.
David Sidwell UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Senior Independent Director	2014	Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; Chairman of the board of Village Care, New York; Director of the National Council on Aging, Washington D.C.
Reto Francioni Deutsche Börse AG, Mergenthalerallee 61, D-65760 Eschborn	Member	2014	CEO of Deutsche Börse AG (holding different mandates in boards of subsidiaries within the Deutsche Börse Group); professor at the University of Basel. Member of the Shanghai International Financial Advisory Committee; member of the Advisory Board of the Moscow International Financial Center; member of the Advisory Board of Instituto de Empresa; member of the Board of Trustees of the Goethe Business School; member of the Strategic Advisory Group of VHV Insurance; Vice President of the <i>Deutsche Aktieninstitut</i> .
Rainer-Marc Frey Office of Rainer-Marc Frey, Seeweg 39, CH- 8807 Freienbach	Member	2014	Founder of Horizon21 AG; Chairman of Horizon21 AG, its holding company and related entities and subsidiaries; member of the board of DKSH Group, Zurich, and of the Frey Charitable Foundation, Freienbach.
Ann F. Godbehere UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Member	2014	Board member and Chairperson of the Audit Committee of Prudential plc, Rio Tinto plc, Rio Tinto Limited, Atrium Underwriters Ltd., and Atrium Underwriting Group Ltd., London. Member of the board of Arden Holdings Ltd., Bermuda, and British American Tobacco plc.
Axel P. Lehmann Zurich Insurance Group, Mythenquai 2, CH-8002 Zurich	Member	2014	Member of the Group Executive Committee, Group Chief Risk Officer and Regional Chairman Europe of Zurich Insurance Group, Zurich; Chairman of the board of Farmers Group, Inc.; Chairman of the board of the Institute of Insurance Economics at the University of St. Gallen; member of the Chief Risk Officer Forum; member of the board of Economiesuisse.
Helmut Panke BMW AG, Petuelring 130, D-80788 Munich	Member	2014	Member of the board and Chairperson of the Regulatory and Public Policy Committee of Microsoft Corporation; member of the board and Chairperson of the Safety & Risk Committee of Singapore Airlines Ltd.; member of the Supervisory Board of Bayer AG.
William G. Parrett UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Member	2014	Member of the board and Chairperson of the Audit Committee of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc.; Past Chairman of the board of the United States Council for International Business and of United Way Worldwide; member of the Carnegie Hall Board of Trustees.
Isabelle Romy Froiep Renggli, Bellerivestrasse 201, CH- 8034 Zurich	Member	2014	Partner at Froiep Renggli, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; member and Vice Chairman of the Sanction Commission of the SIX Swiss Exchange.
Beatrice Weder di Mauro Johannes Gutenberg- University Mainz, Jakob Welder-Weg 4, D-55099 Mainz	Member	2014	Professor at the Johannes Gutenberg University, Mainz; research fellow at the Center for Economic Policy Research, London; member of the board of Roche Holding Ltd., Basel; member of the Supervisory Board of ThyssenKrupp AG, Essen, and of Robert Bosch GmbH, Stuttgart.

Joseph Yam			Executive Vice President of the China Society for Finance and Banking; member of the international advisory councils of a number of government and academic institutions. Board member and Chairperson of the Risk Committee of China Construction Bank. Member of the board of Johnson Electric Holdings Limited and of UnionPay International Co., Ltd.
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Member	2014	

4.1.2 Organizational principles and structure

Following each AGM, the BoD meets to appoint its Chairman, Vice Chairmen, Senior Independent Director, the BoD committee members and their respective Chairpersons. At the same meeting, the BoD appoints a Company Secretary, who acts as secretary to the BoD and its committees.

The BoD committees comprise the Audit Committee, the Corporate Responsibility Committee, the Governance and Nominating Committee, the Human Resources and Compensation Committee and the Risk Committee. The BoD has also established a Special Committee in connection with the unauthorized trading incident announced in September 2011, as well as, in 2012, an ad-hoc committee on strategy to discuss details of the acceleration of UBS's strategy with the senior management.

4.1.3 Audit Committee

The Audit committee ("AC") comprises five BoD members, with all members having been determined by the BoD to be fully independent and financially literate.

The AC itself does not perform audits, but monitors the work of the external auditors who in turn are responsible for auditing UBS AG's and the Group's annual financial statements and for reviewing the quarterly financial statements.

The function of the AC is to serve as an independent and objective body with oversight of: (i) the Group's accounting policies, financial reporting and disclosure controls and procedures, (ii) the quality, adequacy and scope of external audit, (iii) the Group's compliance with financial reporting requirements, (iv) senior management's approach to internal controls with respect to the production and integrity of the financial statements and disclosure of the financial performance, and (v) the performance of UBS's Group Internal Audit in conjunction with the Chairman of the BoD and the Risk Committee.

The AC reviews the annual and quarterly financial statements of UBS AG and the Group, as proposed by management, with the external auditors and Group Internal Audit in order to recommend their approval (including any adjustments the AC considers appropriate) to the BoD.

Periodically, and at least annually, the AC assesses the qualifications, expertise, effectiveness, independence and performance of the external auditors and their lead audit partner, in order to support the BoD in reaching a decision in relation to the appointment or dismissal of the external auditors and the rotation of the lead audit partner. The BoD then submits these proposals for approval at the AGM.

The members of the AC are William G. Parrett (Chairperson), Michel Demaré, Ann F. Godbehere, Isabelle Romy and Beatrice Weder di Mauro.

4.2 Group Executive Board

Under the leadership of the Group CEO, the GEB has executive management responsibility for the UBS Group and its business. It assumes overall responsibility for the development of the UBS Group and business division strategies and the implementation of approved strategies. All GEB members (with the exception of the Group CEO) are proposed by the Group CEO. The appointments are made by the BoD.

The business address of the members of the GEB is UBS AG, Bahnhofstrasse 45, CH-8098 Zurich.

4.2.1 Members of the Group Executive Board

Sergio P. Ermotti	Group Chief Executive Officer
Markus U. Diethelm	Group General Counsel
John A. Fraser	Chairman and Chief Executive Officer Global Asset Management
Lukas Gähwiler	Chief Executive Officer UBS Switzerland, Chief Executive Officer Retail & Corporate
Ulrich Körner	Group Chief Operating Officer, Chief Executive Officer UBS Group EMEA
Philip J. Lofts	Group Chief Risk Officer
Robert J. McCann	Chief Executive Officer Wealth Management Americas, Chief Executive Officer UBS Group Americas
Tom Naratil	Group Chief Financial Officer
Andrea Orcel	Chief Executive Officer Investment Bank
Chi-Won Yoon	Chief Executive Officer UBS Group Asia Pacific
Jürg Zeltner	Chief Executive Officer Wealth Management

No member of the GEB has any significant business interests outside UBS AG.

4.3 Potential Conflicts of Interest

Members of the BoD and GEB may act as directors or executive officers of other companies (for current principal positions outside UBS AG, if any, of BoD members, please see section 4.1.1 above) and may have economic or other private interests that differ from those of UBS AG. Potential conflicts of interest may arise from these positions or interests. UBS is confident that its internal corporate governance practices and its compliance with relevant legal and regulatory provisions reasonably ensure that any conflicts of interest of the type described above are appropriately managed, including through disclosure when appropriate.

5. Auditors

Based on section 31 of the Articles of Association, UBS AG shareholders elect the auditors for a term of office of one year. At the AGM of 28 April 2011, 3 May 2012 and 2 May 2013, Ernst & Young Ltd., Aeschengraben 9, CH-4002 Basel ("Ernst & Young") were elected as auditors for the financial statements of UBS AG and the consolidated financial statements of the UBS Group for a one-year term, respectively.

Ernst & Young is a member of the Swiss Institute of Certified Accountants and Tax Consultants based in Zurich, Switzerland.

6. Major Shareholders of UBS AG

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Under the Federal Act on Stock Exchanges and Securities Trading of 24 March 1995, as amended (the "Swiss Stock Exchange Act"), anyone holding shares in a company listed in Switzerland, or derivative rights related to shares of such a company, must notify the company and the SIX Swiss Exchange if the holding attains, falls below or exceeds one of the following thresholds: 3, 5, 10, 15, 20, 25, 33 1/3, 50 or 66 2/3% of the voting rights, whether they are exercisable or not.

The following are the most recent notifications of holdings in UBS AG's share capital filed in accordance with the Swiss Stock Exchange Act, based on UBS AG's registered share capital at the time of the disclosure: (i) 30 September 2011, Norges Bank (the Central Bank of Norway), 3.04%; (ii) 12 March 2010, Government of Singapore Investment Corp., 6.45%; (iii) 17 December 2009, BlackRock Inc., New York, USA, 3.45%.

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Voting rights may be exercised without any restrictions by shareholders entered into the share register, if they expressly render a declaration of beneficial ownership according to the provisions of the Articles of Association. Special provisions exist for the registration of fiduciaries and nominees. Fiduciaries and nominees are entered in the share register with voting rights up to a total of 5% of all shares issued, if they agree to disclose upon UBS AG's request beneficial owners holding 0.3% or more of all UBS AG shares. An exception to the 5% voting limit rule exists for securities clearing organizations such as The Depository Trust Company in New York.

As of 30 June 2013, the following shareholders (acting in their own name or in their capacity as nominees for other investors or beneficial owners) were registered in the share register with 3% or more of the total share capital of UBS AG: Chase Nominees Ltd., London (11.46%); Government of Singapore Investment Corp., Singapore (6.39%); the US securities clearing organization DTC (Cede & Co.) New York, "The Depository Trust Company" (5.36%); and Nortrust Nominees Ltd., London (4.09%).

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UBS holds UBS AG shares primarily to hedge employee share and option participation plans. A smaller number is held by the Investment Bank for hedging related derivatives and for market-making in UBS AG shares. As of 30 June 2013, UBS held a stake of UBS AG's shares, which corresponded to less than 3.00% of UBS AG's total share capital. As of 31 December 2012, UBS had disposal positions relating to 422,236,769 voting rights, corresponding to 11.02% of the total voting rights of UBS AG. 8.20% of this consisted of voting rights on shares deliverable in respect of employee awards. The year-end disposal positions also included the number of shares that may be issued, upon certain conditions, out of conditional capital to the Swiss National Bank ("SNB") in connection with the transfer of certain illiquid securities and other positions to a fund owned and controlled by the SNB.

Further details on the distribution of UBS AG's shares, also by region and shareholders' type, and on the number of shares registered, not registered and carrying voting rights as of 31 December 2012 can be found in the Annual Report 2012, on pages 225-227 (inclusive) of the English version.

7. Financial Information concerning UBS AG's Assets and Liabilities, Financial Position and Profits and Losses

7.1 Historical Annual Financial Information

A description of UBS AG's and UBS Group's assets and liabilities, financial position and profits and losses for financial year 2011 is available in the Financial information section of the annual report of UBS AG as of 31 December 2011 ("Annual Report 2011"), and for financial year 2012 is available in the Financial information section of the Annual Report 2012. UBS AG's financial year is the calendar year.

With respect to the financial year 2011, reference is made to the following parts of the Annual Report 2011 (within the Financial information section, English version):

- (i) the Consolidated Financial Statements of UBS Group, in particular to the Income Statement on page 289, the Balance Sheet on page 291, the Statement of Cash Flows on pages 295-296 (inclusive) and the Notes to the Consolidated Financial Statements on pages 297-410 (inclusive); and
- (ii) the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement on page 414, the Balance Sheet on page 415, the Statement of Appropriation of Retained Earnings on page 416, the Notes to the Parent Bank Financial Statements on pages 417-434 (inclusive) and the Parent Bank Review on pages 411-413 (inclusive); and
- (iii) the section entitled "Introduction and accounting principles" on page 282.

With respect to the financial year 2012, reference is made to the following parts of the Annual Report 2012 (within the Financial information section, English version):

- (i) the Consolidated Financial Statements of UBS Group, in particular to the Income Statement on page 323, the Balance Sheet on page 325, the Statement of Cash Flows on pages 329-330 (inclusive) and the Notes to the Consolidated Financial Statements on pages 331-455 (inclusive); and
- (ii) the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement on page 460, the Balance Sheet on page 461, the Statement of Appropriation of Retained Earnings on page 462, the Notes to the Parent Bank Financial Statements on pages 463-482 (inclusive) and the Parent Bank Review on pages 457-459 (inclusive); and
- (iii) the section entitled "Introduction and accounting principles" on page 316.

The annual financial reports form an essential part of UBS's reporting. They include the audited consolidated financial statements of UBS Group, prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and the audited financial statements of UBS AG (Parent Bank), prepared in order to meet Swiss regulatory requirements and in compliance with Swiss Federal Banking Law. The Financial information section of the annual reports also includes certain additional disclosures required under US Securities and

Exchange Commission regulations. The annual reports also include discussions and analysis of the financial and business results of UBS, its business divisions and the Corporate Center.

7.2 Auditing of Historical Annual Financial Information

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Element

The consolidated financial statements of UBS Group and the financial statements of UBS AG (Parent Bank) for financial years 2011 and 2012 were audited by Ernst & Young. The reports of the auditors on the consolidated financial statements can be found on pages 287-288 (inclusive) of the Annual Report 2011 (Financial information section, English version) and on pages 321-322 (inclusive) of the Annual Report 2012 (Financial information section, English version). The reports of the auditors on the financial statements of UBS AG (Parent Bank) can be found on pages 435-436 (inclusive) of the Annual Report 2011 (Financial information section, English version) and on pages 483-484 (inclusive) of the Annual Report 2012 (Financial information section, English version).

There are no qualifications in the auditors' reports on the historical annual financial information incorporated by reference into this document.

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7.3 Interim Financial Information

Reference is also made to UBS AG's first and second quarter 2013 reports, which contain information on the financial condition and the results of operation of the UBS Group as of and for the quarter ended on 31 March 2013 and on 30 June 2013, respectively. The interim financial statements are not audited.

7.4 Incorporation by Reference

UBS AG's Annual Report 2011, Annual Report 2012, the first quarter 2013 report and the second quarter 2013 report are fully incorporated in, and form an integral part of, this document.

7.5 Litigation, Regulatory and Similar Matters

The Group operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings. As a result, UBS (which for purposes of this section may refer to UBS AG and/or one or more of its subsidiaries, as applicable) is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations.

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. There are also situations where the Group 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 the Group believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The Group makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. If any of those conditions is not met, such matters result in contingent liabilities.

Specific litigation, regulatory and other matters are described below, including all such matters that management considers to be material and others that management believes to be of significance due to potential financial, reputational and other effects. The amount of damages claimed, the size of a transaction or other information is provided where available and appropriate in order to assist users in considering the magnitude of potential exposures.

In the case of certain matters below, UBS states that it has established a provision, and for the other matters it makes no such statement. When UBS makes this statement and it expects disclosure of the amount of a provision to prejudice seriously its position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably estimable outflow, UBS does not disclose that amount. In some cases UBS is subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which UBS does not state whether it has established a provision, either (a) it has not established a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard or (b) it has established a provision but expects disclosure of that fact to prejudice seriously its position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 17a to the unaudited consolidated financial statements of UBS's second quarter 2013 report. It is not practicable to provide an aggregate estimate of liability for UBS's litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require UBS to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants.

Provisions for litigation, regulatory and similar matters by segment

<i>CHF million</i>	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	CC – Core Functions	CC – Non-core and Legacy Portfolio	UBS
Balance as of 31 December 2012	130	170	28	7	29	338	732	1,432
Balance as of 31 March 2013	114	172	35	7	26	370	1,074	1,797
Increase in provisions recognized in the income statement	25	16	2	0	10	14	620	687
Release of provisions recognized in the income statement	(5)	(3)	(5)	0	0	0	(1)	(14)
Provisions used in conformity with designated purpose	(17)	(12)	(13)	(5)	(1)	0	(221)	(268)
Foreign currency translation / unwind of discount	0	(1)	(1)	0	0	(8)	(8)	(17)
Balance as of 30 June 2013	117	173	19	2	34	376	1,465	2,185

1. Inquiries regarding cross-border wealth management businesses

Following the disclosure and the settlement of the US cross-border matter, tax and regulatory authorities in a number of countries have made inquiries and served requests for information located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. As a result of the French investigations, in May and June 2013, respectively, UBS (France) S.A. and UBS AG have been put under formal examination ("*mise en examen*") for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance ("*témoign assisté*") regarding the laundering of the proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. In June 2013, the French banking supervisory authority's disciplinary commission reprimanded UBS (France) S.A. for having had insufficiencies in its control and compliance framework around its cross-border activities and "know your customer" obligations. It imposed a penalty of EUR 10 million, and a provision of that amount is reflected on UBS's balance sheet at 30 June 2013. UBS has also received inquiries from German authorities concerning certain matters relating to its cross-border business. UBS is cooperating with these inquiries, requests and investigations within the limits of financial privacy obligations under Swiss and other applicable laws.

2. Matters related to the financial crisis

UBS has responded to a number of governmental inquiries and investigations and is involved in a number of litigations, arbitrations and disputes related to the financial crisis of 2007 to 2009 and in particular mortgage-related securities and other structured transactions and derivatives. UBS is in discussions with the SEC concerning UBS's structuring and underwriting of one CDO in 2007.

UBS is a defendant in several lawsuits filed by institutional purchasers of CDOs structured by UBS in which plaintiffs allege, under various legal theories, that UBS misrepresented the quality of the collateral underlying the CDOs. Plaintiffs in these suits collectively seek to recover several hundred million dollars in claimed losses. In April 2013, the trial court dismissed with prejudice one of these suits in which plaintiffs claimed losses of at least USD 331 million. In July 2013 the plaintiffs filed a notice of appeal and also moved the trial court for reconsideration of the dismissal.

UBS's balance sheet at 30 June 2013 reflected a provision with respect to matters described in this item 2 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

3. Lehman principal protection notes

From March 2007 through September 2008, UBS Financial Services Inc. ("UBSFS") sold approximately USD 1 billion face amount of structured notes issued by Lehman Brothers Holdings Inc. ("Lehman"), a majority of which were referred to as "principal protection notes," reflecting the fact that while the notes' return was in some manner linked to market indices or other measures, some or all of the investor's principal was an unconditional obligation of Lehman as issuer of the notes. Based on its role as an underwriter of Lehman structured notes, UBSFS has been named as a defendant in a putative class action asserting violations of disclosure provisions of the federal securities laws. In January 2013, plaintiffs' motion to certify the case as a class action, which UBS opposed, was granted with respect to certain claims. UBS's petition to appeal that ruling was denied

by the Second Circuit and discovery has commenced. Firms that underwrote other non-structured Lehman securities have been named as defendants in the same purported class action, and those underwriters have entered into settlements. In 2011, UBSFS entered into a settlement with the Financial Industry Regulatory Authority ("FINRA") related to the sale of these notes, pursuant to which UBSFS agreed to pay a USD 2.5 million fine and up to USD 8.25 million in restitution and interest to a limited number of investors in the US. UBSFS has also been named in numerous individual civil suits and customer arbitrations, which proceedings are at various stages. The individual customer claims, some of which have resulted in awards payable by UBSFS, relate primarily to whether UBSFS adequately disclosed the risks of these notes to its customers.

4. Claims related to sales of residential mortgage-backed securities and mortgages

From 2002 through 2007, prior to the crisis in the US residential loan market, UBS was a substantial issuer and underwriter of US residential mortgage-backed securities ("RMBS") and was a purchaser and seller of US residential mortgages. A subsidiary of UBS, UBS Real Estate Securities Inc. ("UBS RESI"), acquired pools of residential mortgage loans from originators and (through an affiliate) deposited them into securitization trusts. In this manner, from 2004 through 2007, UBS RESI sponsored approximately USD 80 billion in RMBS, based on the original principal balances of the securities issued.

UBS RESI also sold pools of loans acquired from originators to third-party purchasers. These whole loan sales during the period 2004 through 2007 totaled approximately USD 19 billion in original principal balance.

UBS was not a significant originator of US residential loans. A subsidiary of UBS originated approximately USD 1.5 billion in US residential mortgage loans during the period in which it was active from 2006 to 2008, and securitized less than half of these loans.

Securities Lawsuits Concerning Disclosures in RMBS Offering Documents: UBS has been named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits. As a result of the settlement with the Federal Housing Finance Agency ("FHFA") announced in July 2013 (addressed below), the remaining pending lawsuits relate to approximately USD 40 billion in original face amount of RMBS underwritten or issued by UBS. Some of the lawsuits are in their early stages and have not advanced beyond the motion to dismiss phase; others are in varying stages of discovery. Of the USD 40 billion in original face amount of RMBS at issue in these cases, approximately USD 6 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitization trust and made representations and warranties about those loans ("UBS-sponsored RMBS"). The remaining USD 34 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter ("third-party RMBS").

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights. A settlement announced in April 2013 by a third-party issuer could, upon court approval and finalization, reduce the original face amount of RMBS at issue in these cases from USD 40 billion to USD 16 billion, and the original face amount of RMBS at issue in cases involving third-party issuers from USD 34 billion to USD 10 billion. UBS cannot make any assurance that this third-party issuer settlement, to which UBS is not required or expected to make a financial contribution, will receive court approval and be finalized.

These lawsuits included actions brought by the FHFA, as conservator for the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac" and, collectively with Fannie Mae, the "GSEs"), in connection with the GSEs' investments in USD 4.5 billion in original face amount of UBS-sponsored RMBS and USD 1.8 billion in original face amount of third-party RMBS. These suits asserted claims for damages and rescission under federal and state securities laws and state common law and alleged losses of at least USD 1.2 billion plus interest. The court denied UBS's motion to dismiss in 2012. In April 2013, the court's decision with respect to two legal issues that were the subject of UBS's motion to dismiss was affirmed on appeal by the US Court of Appeals for the Second Circuit. The FHFA also filed suits in 2011 against UBS and other financial institutions relating to their role as underwriters of third-party RMBS purchased by the GSEs asserting claims under various legal theories, including violations of the federal and state securities laws and state common law. In July 2013, UBS entered into a settlement with the FHFA under which UBS will pay USD 885 million to resolve these lawsuits and certain other unasserted claims. More specifically, the FHFA has agreed to dismiss the pending lawsuits and release potential claims it could assert against UBS on behalf of the GSEs related to UBS-sponsored RMBS and third-party RMBS underwritten by UBS. The FHFA and the GSEs have also agreed that they will not take steps to cause third parties to assert loan repurchase demands or commence loan repurchase litigation in connection with UBS-sponsored RMBS. This settlement, however, will not resolve the two pending lawsuits described below under "Lawsuits related to contractual representations and warranties concerning mortgages and RMBS."

In 2012 a federal court in New Jersey dismissed with prejudice on statute of limitations grounds a putative class action lawsuit that asserted violations of the federal securities laws against various UBS entities, among others, in connection with USD 2.6 billion in original face amount of UBS-sponsored RMBS. The named plaintiff's appeal of the dismissal is pending.

Loan repurchase demands related to sales of mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust. UBS has been notified by certain institutional purchasers and insurers of mortgage loans and RMBS, including Freddie Mac, of their contention that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. The table below summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 23 July 2013. In the table, repurchase demands characterized as Demands resolved in litigation and Demands rescinded by counterparty are considered to be finally resolved. Repurchase demands in all other categories are not finally resolved.

Loan repurchase demands by year received – original principal balance of loans ¹

USD million	2006-2008	2009	2010	2011	2012	through 23 July 2013	Total
Resolved demands							
Actual or agreed loan repurchases / make whole payments by UBS	12	1					13
Demands rescinded by counterparty	110	104	19	301	237		772
Demands resolved in litigation	1	21					21
Demands expected to be resolved by third parties							

Demands resolved or expected to be resolved through enforcement of indemnification rights against third-party originators	77	2	45	142	1	267
Demands in dispute						
Demands in litigation		346	732	1,041		2,118
Demands in review by UBS			6	8	9	23
Demands rebutted by UBS but not yet rescinded by counterparty	1	2		10		14
Total	123	205	368	1,084	10	3,228

¹ Loans submitted by multiple counterparties are counted only once.

Payments that UBS has made or agreed to make to date to resolve repurchase demands equate to approximately 62% of the original principal balance of the related loans. Most of the payments that UBS has made or agreed to make to date have related to so-called "Option ARM" loans; severity rates may vary for other types of loans or for Option ARMs with different characteristics. Actual losses upon repurchase will reflect the estimated value of the loans in question at the time of repurchase as well as, in some cases, partial repayment by the borrowers or advances by servicers prior to repurchase. It is not possible to predict future losses upon repurchase for reasons including timing and market uncertainties.

In most instances in which it would be required to repurchase loans due to misrepresentations, UBS would be able to assert demands against third-party loan originators who provided representations when selling the related loans to UBS. However, many of these third parties are insolvent or no longer exist. UBS estimates that, of the total original principal balance of loans sold or securitized by UBS from 2004 through 2007, less than 50% was purchased from surviving third-party originators. In connection with approximately 60% of the loans (by original principal balance) for which UBS has made payment or agreed to make payment in response to demands received in 2010, UBS has asserted indemnity or repurchase demands against originators. Since 2011, UBS has advised certain surviving originators of repurchase demands made against UBS for which UBS would be entitled to indemnity, and has asserted that such demands should be resolved directly by the originator and the party making the demand.

UBS cannot reliably estimate the level of future repurchase demands, and does not know whether its rebuttals of such demands will be a good predictor of future rates of rebuttal. UBS also cannot reliably estimate the timing of any such demands.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: In 2012, Assured Guaranty Municipal Corp. ("Assured Guaranty"), a financial guaranty insurance company, filed suit against UBS RESI asserting claims for breach of contract and declaratory relief based on UBS RESI's alleged failure to repurchase allegedly defective mortgage loans with an original principal balance of at least USD 997 million that serve as collateral for UBS-sponsored RMBS insured in part by Assured Guaranty. Assured Guaranty also claimed that UBS RESI breached representations and warranties concerning the mortgage loans and breached certain obligations under commitment letters. In May 2013 UBS entered into a settlement agreement with Assured Guaranty that resolves all claims in this litigation, as well as unasserted claims related to RMBS issued, underwritten or sponsored by UBS. Pursuant to the settlement, UBS made a cash payment to Assured Guaranty and entered into a reinsurance agreement whereby UBS agreed to reimburse Assured Guaranty for a portion of future losses on certain RMBS transactions insured by Assured Guaranty. The pre-tax expense incurred by UBS as a result of its obligations under the settlement agreement, net of an indemnification payment received from a third party, was approximately USD 310 million, all of which had been accrued in UBS's litigation provisions in periods prior to the second quarter of 2013.

In 2012, certain RMBS trusts filed an action in the Southern District of New York seeking to enforce UBS RESI's obligation to repurchase loans with an original principal balance of approximately USD 2 billion for which Assured Guaranty had previously demanded repurchase. UBS's motion to dismiss the suit filed by the trusts is pending. With respect to the loans subject to the suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. At this time, UBS does not expect that it will be required to make payment for the majority of loan repurchase demands at issue in the suit brought by the RMBS trusts for at least the following reasons: (1) UBS reviewed the origination file and/or servicing records for the loan and concluded that the allegations of breach of representations and warranties are unfounded, or (2) a surviving originator is contractually liable for any breaches of representations and warranties with respect to loans that it originated. UBS has indemnification rights in connection with approximately half of the USD 2 billion in original principal balance of loans at issue in this suit (reflected in the "In litigation" category in the accompanying table). Additionally, in its motion to dismiss the suit filed by the trusts, UBS has asserted that, under governing transaction documents, UBS is not required to repurchase liquidated loans that were the subject of repurchase demands now at issue in this suit.

In 2012, the FHFA, on behalf of Freddie Mac, filed a notice and summons in New York Supreme Court initiating suit against UBS RESI for breach of contract and declaratory relief arising from alleged breaches of representations and warranties in connection with certain mortgage loans and UBS RESI's alleged failure to repurchase such mortgage loans. The complaint for this suit was filed in September 2012. The lawsuit seeks, among other relief, specific performance of UBS RESI's alleged loan repurchase obligations for at least USD 94 million in original principal balance of loans for which Freddie Mac had previously demanded repurchase; no damages are specified. In June 2013 the Court dismissed the complaint for lack of standing, on the basis that only the RMBS trustee could assert the claims in the complaint, and the complaint was unclear as to whether the trustee was the plaintiff and had proper authority to bring suit. The trustee filed an amended complaint in June 2013, which UBS moved to dismiss in July 2013. The motion remains pending.

UBS also has tolling agreements with certain institutional purchasers of RMBS concerning their potential claims related to substantial purchases of UBS-sponsored or third-party RMBS.

As reflected in the table below, UBS's balance sheet at 30 June 2013 reflected a provision of USD 1.4 billion with respect to matters described in this item 4. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

Provision for claims related to sales of residential mortgage-backed securities and mortgages

<i>USD million</i>	
Balance as of 31 December 2012	658
Balance as of 31 March 2013	962
Increase in provision recognized in the income statement	653
Release of provision recognized in the income statement	(1)
Provision used in conformity with designated purpose	(213) ¹
Balance as of 30 June 2013	1,401

¹ Reflects usage of the provision in connection with the cash payment under the settlement with

Assured Guaranty referred to above; reflects no usage of the provision in connection with the settlement with FHFA referred to above.

5. Claims related to UBS disclosure

A putative consolidated class action has been filed in the United States District Court for the Southern District of New York against UBS, a number of current and former directors and senior officers and certain banks that underwrote UBS's May 2008 Rights Offering (including UBS Securities LLC) alleging violation of the US securities laws in connection with UBS's disclosures relating to UBS's positions and losses in mortgage-related securities, UBS's positions and losses in auction rate securities, and UBS's US cross-border business. In 2011, the court dismissed all claims based on purchases or sales of UBS ordinary shares made outside the US, and, in 2012, the court dismissed with prejudice the remaining claims based on purchases or sales of UBS ordinary shares made in the US for failure to state a claim. Plaintiffs have appealed the court's decision. UBS, a number of senior officers and employees and various UBS committees have also been sued in a putative consolidated class action for breach of fiduciary duties brought on behalf of current and former participants in two UBS Employee Retirement Income Security Act ("ERISA") retirement plans in which there were purchases of UBS stock. In 2011, the court dismissed the ERISA complaint. In 2012, the court denied plaintiffs' motion for leave to file an amended complaint. On appeal, the Second Circuit upheld the dismissal of all counts relating to one of the retirement plans. With respect to the second retirement plan, the Court upheld the dismissal of some of the counts, and vacated and remanded for further proceedings with regard to the counts alleging that defendants had violated their fiduciary duty to prudently manage the plan's investment options, as well as the claims derivative of that duty.

In 2012, a consolidated complaint was filed in a putative securities fraud class action pending in federal court in Manhattan against UBS AG and certain of its current and former officers relating to the unauthorized trading incident that occurred in the Investment Bank and was announced in September 2011. The lawsuit was filed on behalf of parties who purchased publicly traded UBS securities on any US exchange, or where title passed within the US, during the period 17 November 2009 through 15 September 2011. UBS's motion to dismiss the complaint is pending.

6. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC ("BMIS") investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier ("CSSF"). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without however being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370

million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals have been filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In the US, the BMIS Trustee has filed claims against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in 2010 against 23 defendants, including UBS entities, the Luxembourg and offshore funds concerned and various individuals, including current and former UBS employees. The total amount claimed against all defendants in this action was not less than USD 2 billion. A second claim was filed in 2010 against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants was not less than USD 555 million. Following a motion by UBS, in 2011 the District Court dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In June 2013, the Second Circuit Court of Appeals rejected the BMIS Trustee's appeal against that ruling and upheld the District Court's decision. The BMIS Trustee may seek to appeal to the US Supreme Court. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds.

7. Transactions with Italian public sector entities

A number of transactions that UBS Limited and UBS AG respectively entered into with public sector entity counterparties in Italy have been called into question or become the subject of legal proceedings and claims for damages and other awards. In Milan, in 2012, civil claims brought by the City of Milan against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with Milan between 2005 and 2007 were settled without admission of liability. In 2012, the criminal court in Milan issued a judgment convicting two current UBS employees and one former employee, together with employees from the three other banks, of fraud against a public entity in relation to the same bond issue and the execution, and subsequent restructuring, of the related derivative transactions. In the same proceedings, the Milan criminal court also found UBS Limited and three other banks liable for the administrative offense of failing to have in place a business organizational model capable of preventing the criminal offenses of which its employees were convicted. The sanctions against UBS Limited, which are not effective until appeals are exhausted, are confiscation of the alleged level of profit flowing from the criminal findings (EUR 16.6 million), a fine in respect of the finding of the administrative offense (EUR 1 million) and payment of legal fees. UBS has previously provided for this potential exposure in the amount of EUR 18.5 million. UBS Limited and the individuals filed their appeal in May 2013.

Derivative transactions with the Regions of Calabria, Tuscany, Lombardy, Lazio and Campania, and the City of Florence have also been called into question or become the subject of legal proceedings and claims for damages and other awards. In 2012, UBS AG and UBS Limited settled all civil disputes with the Regions of Tuscany, Lombardy and Lazio without any admission of liability. An in-principle agreement has also been reached with the City of Florence. Provisions have been booked in respect of these agreed or prospective settlements.

8. Kommunale Wasserwerke Leipzig GmbH ("KWL")

In 2006 and 2007, KWL entered into a series of credit default swap ("CDS") transactions with bank swap counterparties, including UBS. UBS entered into back-to-back CDS transactions with the other

counterparties, Depfa Bank plc ("Depfa") and Landesbank Baden-Württemberg ("LBBW"), in relation to their respective swaps with KWL. As a result of the KWL CDS transactions and the back-to-back CDS transactions with Depfa and LBBW, UBS and UBS Limited are owed a total amount of USD 319.8 million, plus interest, which remains unpaid. Specifically, under the CDS contracts between KWL and UBS, the last of which were terminated by UBS in 2010, a net sum of approximately USD 137.6 million, plus interest, has fallen due from KWL but not been paid. Earlier in 2010, UBS issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transaction between KWL and UBS is valid, binding and enforceable as against KWL. The English court ruled in 2010 that it has jurisdiction and will hear the proceedings and UBS issued a further claim seeking declarations concerning the validity of its early termination of the remaining CDS transactions with KWL. KWL withdrew its appeal from that decision and the civil dispute is now proceeding before the English court. UBS has added its monetary claim to the proceedings. KWL is defending against UBS's claims and has served a counterclaim which also joins UBS Limited and Depfa to the proceedings. As part of its assertions, KWL claims damages of at least USD 68 million in respect of UBS's termination of some of the CDS contracts, whilst disputing that any monies are owed to UBS pursuant to another CDS contract. UBS, UBS Limited and Depfa are defending against KWL's counterclaims, and Depfa has asserted additional claims against UBS and UBS Limited.

In 2010, KWL issued proceedings in Leipzig, Germany against UBS, Depfa and LBBW, claiming that the swap transactions are void and not binding on the basis of KWL's allegation that KWL did not have the capacity or the necessary internal authorization to enter into the transactions and that the banks knew this. Upon and as a consequence of KWL withdrawing its appeal on jurisdiction in England, KWL also withdrew its civil claims against UBS and Depfa in the German courts, and no civil claim will proceed against either of them in Germany. The proceedings brought by KWL against LBBW have continued in Leipzig, and in June 2013 the court in Leipzig ruled in LBBW's favor. The Leipzig court has ruled that it is for the London court and not the Leipzig court to determine the validity and effect of a third party notice served by LBBW on UBS in the Leipzig proceedings.

The back-to-back CDS transactions were terminated in 2010. In 2010, UBS and UBS Limited issued separate proceedings in the English High Court against Depfa and LBBW seeking declarations as to the parties' obligations under the back-to-back CDS transactions and monetary claims. UBS Limited contends that it is owed USD 83.3 million, plus interest, by Depfa. UBS contends that it is owed EUR 75.5 million, plus interest, by LBBW. Depfa and LBBW are defending against the claims and have also issued counterclaims. Additionally Depfa added a claim against KWL to the proceedings against it and KWL served a defense.

In 2011, the former managing director of KWL and two financial advisers were convicted on criminal charges related to certain KWL transactions, including swap transactions with UBS and other banks. They are all the subject of further ongoing criminal proceedings in Dresden relating to the transactions with UBS, LBBW and DEPFA.

In 2011, the SEC commenced an investigation concerning, among other things, the suitability of the KWL transactions. UBS is cooperating with the SEC.

9. Puerto Rico

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico ("System") against over 40 defendants, including UBS Financial Services Inc. of Puerto Rico ("UBS PR") and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The

plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately three billion dollars of bonds by the System in 2008 and sought damages of over USD 800 million. UBS is named in connection with its underwriting and consulting services. In March 2013, the case was dismissed by the Puerto Rico court on the grounds that plaintiffs did not have standing to bring the claim. UBS is also cooperating with an SEC investigation into the bond offerings. Also, in late 2012, an SEC administrative hearing on securities law violation charges against two UBS PR executives concluded, with a decision expected in late 2013. The charges stemmed from the SEC's investigation of UBS PR's sale of closed-end funds in 2008 and 2009, which UBS PR settled in May 2012.

10. LIBOR and other benchmark rates

Numerous government agencies, including the SEC, the US Commodity Futures Trading Commission ("CFTC"), the US Department of Justice ("DOJ"), the UK Financial Conduct Authority ("FCA") (to which certain responsibilities of the UK Financial Services Authority ("FSA") have passed), the UK Serious Fraud Office ("SFO"), the Monetary Authority of Singapore ("MAS"), the Hong Kong Monetary Authority ("HKMA"), FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions have conducted or are continuing to conduct investigations regarding submissions with respect to British Bankers' Association LIBOR (London Interbank Offered Rate) and other benchmark rates, including HIBOR (Hong Kong Interbank Offered Rate) and ISDAFIX. These investigations focus on whether there were improper attempts by UBS (among others), either acting on its own or together with others, to manipulate LIBOR and other benchmark rates at certain times.

In June 2013 the MAS announced the results of its investigation of benchmark submissions by twenty banks, including UBS. The investigation related to various benchmark submissions, including the Singapore Interbank Offered Rates and the Swap Offered Rates, and covered the period from 2007 to 2011. The MAS found deficiencies in the governance, risk management, internal controls and surveillance systems for the banks' benchmark submission processes and directed the banks to correct the deficiencies and set aside additional statutory reserves with MAS at zero interest for one year. The MAS also announced proposed changes to its regulatory framework for financial benchmarks that are designed to enhance the integrity of the process for setting benchmarks.

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS will pay a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, and CHF 59 million in disgorgement to FINMA. Under a non-prosecution agreement ("NPA") that UBS entered into with the DOJ, UBS has agreed to pay a fine of USD 500 million. Pursuant to a separate plea agreement between the DOJ and UBS Securities Japan Co. Ltd. ("UBSSJ"), UBSSJ has entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR, and the DOJ and UBSSJ have agreed to a sentence to be imposed on UBSSJ that would include a fine of USD 100 million, which is subject to the discretion of the sentencing court. The NPA requires UBS to pay the USD 500 million fine to DOJ within 10 days of the sentencing of UBSSJ, and provides that any criminal penalties imposed on UBSSJ at sentencing, which currently is scheduled for 18 September 2013, will be deducted from the USD 500 million fine. The conduct described in the various settlements and the FINMA order includes certain UBS personnel: engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions; colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions; and giving inappropriate directions to UBS submitters that were in part motivated by a desire to

avoid unfair and negative market and media perceptions during the financial crisis. The benchmark interest rates encompassed by one or more of these resolutions include Yen LIBOR, GBP LIBOR, CHF LIBOR, Euro LIBOR, USD LIBOR, EURIBOR (Euro Interbank Offered Rate) and Euroyen TIBOR (Tokyo Interbank Offered Rate). UBS has ongoing obligations to cooperate with authorities with which it has reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions. Investigations by the CFTC and other government authorities remain ongoing notwithstanding these resolutions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ and the Swiss Competition Commission ("WEKO"), in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. WEKO has also granted UBS conditional immunity in connection with potential competition law violations related to submissions for Swiss franc LIBOR and certain transactions related to Swiss franc LIBOR. The Canadian Competition Bureau has granted UBS conditional immunity in connection with potential competition law violations related to submissions for Yen LIBOR. As a result of these conditional grants, UBS will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in the jurisdictions where it has conditional immunity or leniency in connection with the matters covered by the conditional grants, subject to UBS's continuing cooperation. However, the conditional leniency and conditional immunity grants UBS has received do not bar government agencies from asserting other claims and imposing sanctions against UBS, as evidenced by the settlements and ongoing investigations referred to above. In addition, as a result of the conditional leniency agreement with the DOJ, UBS is eligible for a limit on liability to actual rather than treble damages were damages to be awarded in any civil antitrust action under US law based on conduct covered by the agreement and for relief from potential joint and several liability in connection with such civil antitrust action, subject to UBS satisfying the DOJ and the court presiding over the civil litigation of its cooperation. The conditional leniency and conditional immunity grants do not otherwise affect the ability of private parties to assert civil claims against UBS.

In 2011, the Japan Financial Services Agency ("JFSA") commenced administrative actions and issued orders against UBS Securities Japan Ltd ("UBS Securities Japan") and UBS AG, Tokyo Branch in connection with their investigation of Yen LIBOR and Euroyen TIBOR. These actions were based on findings by the Japan Securities and Exchange Surveillance Commission ("SESC"), and, in the case of UBS AG, Tokyo Branch, the JFSA, that a former UBS Securities Japan trader engaged in inappropriate conduct relating to Euroyen TIBOR and Yen LIBOR, including approaching UBS AG, Tokyo Branch, and other banks to ask them to submit TIBOR rates taking into account requests from the trader for the purpose of benefiting trading positions.

A number of putative class actions and other actions are pending in the federal courts in New York and other jurisdictions against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives linked directly or indirectly to US dollar LIBOR, Yen LIBOR, Euroyen TIBOR and EURIBOR. Also pending are actions asserting losses related to various products whose interest rate was linked to US dollar LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including LIBOR, Euroyen TIBOR or EURIBOR rates and seek unspecified compensatory and other damages, including treble and punitive damages, under varying legal theories that include violations of the US Commodity Exchange Act, federal and state antitrust laws and the federal racketeering statute. In March 2013, a federal court in New York dismissed the federal antitrust and racketeering claims of certain US dollar LIBOR plaintiffs and a portion of their claims brought under the Commodity Exchange Act. Plaintiffs will have the

opportunity to replead certain claims that have been dismissed. Defendants in the lawsuit asserting claims related to Euroyen TIBOR filed motions to dismiss in June 2013.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, UBS's balance sheet at 30 June 2013 reflected a provision of an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

11. Swiss retrocessions

The Swiss Supreme Court ruled in 2012, in a test case against UBS, that distribution fees paid to a bank for distributing third party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the bank, absent a valid waiver.

FINMA has issued a supervisory note to all Swiss banks in response to the Supreme Court decision. The note sets forth the measures Swiss banks are to adopt, which include informing all affected clients about the Supreme Court decision and directing them to an internal bank contact for further details. UBS has met the FINMA requirements and has notified all potentially affected clients in the context of the mailing of the year-end account statements.

It is expected that the Supreme Court decision will result in a significant number of client requests for UBS to disclose and potentially surrender retrocessions. Client requests are being assessed on a case-by-case basis. Considerations to be taken into account when assessing these cases include, among others, the existence of a discretionary mandate and whether or not the client documentation contained a valid waiver with respect to distribution fees.

UBS's balance sheet at 30 June 2013 reflected a provision with respect to matters described in this item 11 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess, particularly in view of the limited experience to date. Hence as in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

12. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. ("Pactual") by UBS to BTG Investments, LP ("BTG"), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately BRL 2.5 billion, including interest and penalties. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. These assessments are being or will be challenged in administrative proceedings. BTG has also provided notice to UBS of several additional Pactual-related inquiries by the Brazilian tax authorities that relate to the period of UBS's ownership of Pactual, but involving substantially smaller amounts.

13. EC investigation into CDS information market

In July 2013 the European Commission ("EC") issued a Statement of Objections against thirteen credit default swap ("CDS") dealers including UBS, as well as data service provider Markit and the International Swaps and Derivatives Association ("ISDA"). This followed an investigation into the CDS information market which commenced in 2011, with which UBS cooperated fully. The Statement of Objections broadly alleges that the dealers infringed EU antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and 2009. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. In May and July 2013, two putative class action complaints were filed in the Northern District of Illinois against twelve dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act. The complaints allege that the dealers unlawfully exercised collective control over Markit and other industry organizations to seek to ensure that CDS continued to trade over-the-counter rather than on an exchange platform. Plaintiffs seek unspecified trebled compensatory damages, among other relief.

Besides the proceedings specified above under (1) through (13) no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which UBS AG is aware) which may have, or have had in the recent past, significant effects on UBS AG's and/or UBS Group's financial position or profitability, are or have been pending during the last twelve months until the date of this document.

Besides the proceedings specified above under (1) through (13), there are no court, arbitral or administrative proceedings (including any such proceedings which are pending or threatened, of which UBS AG is aware), which are of material importance to UBS AG's assets and liabilities or profits and losses.

7.6 Material Contracts

No material contracts have been entered into outside of the ordinary course of UBS AG's or UBS Group's business, which could result in any member of the UBS Group being under an obligation or entitlement that is material to UBS AG's ability to meet its obligations to the investors in relation to the issued securities.

7.7 Significant Changes in the Financial or Trading Position; Material Adverse Change in Prospects

	Summary Element
There has been no significant change in the financial or trading position of UBS Group or of UBS AG since 30 June 2013.	B.7 / B.12 (Also to be used in the "General Information" section of a prospectus, if needed.)
There has been no material adverse change in the prospects of UBS AG or UBS Group since 31 December 2012.	B.12 (Also to be used in the "General Information" section of a prospectus, if needed.)

No material changes have occurred in UBS AG's assets and liabilities, financial position and profits and losses since 30 June 2013.

8. Share Capital

As reflected in its Articles of Association most recently registered with the Commercial Register of Zurich and the Commercial Register of Basel-City, UBS AG has (i) fully paid and issued share capital of CHF 383,525,023.30, divided into 3,835,250,233 registered shares with a par value of CHF 0.10 each (section 4), (ii) no authorized capital and (iii) conditional share capital in the amount of CHF 62,551,099.20, comprising 625,510,992 registered shares with a par value of CHF 0.10 each (section 4a).

9. Documents on Display

- The Annual Report of UBS AG as of 31 December 2011, comprising the sections (1) Operating environment and strategy, (2) Financial and operating performance, (3) Risk, treasury and capital management, (4) Corporate governance, responsibility and compensation, (5) Financial information (including the "Report of the Statutory Auditor and the Independent Registered Public Accounting Firm on the Consolidated Financial Statements" and the "Report of the Statutory Auditor on the Financial Statements");
- The Annual Report of UBS AG as of 31 December 2012, comprising the sections (1) Operating environment and strategy, (2) Financial and operating performance, (3) Risk, treasury and capital management, (4) Corporate governance, responsibility and compensation, (5) Financial information (including the "Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements" and the "Report of the statutory auditor on the financial statements");
- UBS's report for the quarters ended 31 March 2013 and 30 June 2013, respectively (including unaudited consolidated financial statements); and
- The Articles of Association of UBS AG,

shall be maintained in printed format, for free distribution, at the offices of UBS AG for a period of twelve months after the publication of this document. In addition, the annual and quarterly reports of UBS AG are published on UBS's website, at www.ubs.com/investors or a successor address. The Articles of Association of UBS AG are also available on UBS's Corporate Governance website, at www.ubs.com/governance.