



# UBS General Terms and Conditions for Credit Linked Notes

<b>I.</b>	<b>PRELIMINARY REMARKS.....</b>	<b>4</b>
<b>II.</b>	<b>PRODUCT SPECIFIC TERMS AND CONDITIONS .....</b>	<b>5</b>
<b>1.</b>	<b>INTEREST.....</b>	<b>5</b>
<b>1.1</b>	<b>INTEREST PAYMENTS .....</b>	<b>5</b>
<b>1.2</b>	<b>POSTPONEMENT OF INTEREST PAYMENTS.....</b>	<b>5</b>
<b>1.3</b>	<b>OTHER INTEREST-RELATED PROVISIONS .....</b>	<b>6</b>
<b>1.3.1.1</b>	<b>DAY COUNT FRACTION.....</b>	<b>6</b>
<b>1.3.1.2</b>	<b>ADJUSTED OR UNADJUSTED BUSINESS DAY CONVENTION .....</b>	<b>7</b>
<b>1.3.2</b>	<b>DEDUCTION OF INTEREST .....</b>	<b>7</b>
<b>1.3.3</b>	<b>NOTES WITH INTEREST SUBJECT TO A REFERENCE RATE .....</b>	<b>7</b>
<b>1.3.3.1</b>	<b>DETERMINATION OF THE APPLICABLE REFERENCE RATE .....</b>	<b>7</b>
<b>1.3.3.2</b>	<b>INTERPOLATION OF REFERENCE RATE.....</b>	<b>8</b>
<b>1.3.4</b>	<b>NOTIFICATION OF INTEREST RATE, INTEREST AMOUNT AND SCHEDULED INTEREST PAYMENT DATE.....</b>	<b>8</b>
<b>1.3.5</b>	<b>DEFAULT INTEREST .....</b>	<b>8</b>
<b>2</b>	<b>REDEMPTION .....</b>	<b>9</b>
<b>2.1</b>	<b>SCHEDULED REDEMPTION .....</b>	<b>9</b>
<b>2.2</b>	<b>REDEMPTION FOLLOWING A CREDIT EVENT .....</b>	<b>9</b>
<b>2.3</b>	<b>POSTPONEMENT OF REDEMPTION OR POSTPONEMENT OF PARTIAL REDEMPTION .....</b>	<b>12</b>
<b>2.4</b>	<b>DETERMINATION OF FINAL PRICE .....</b>	<b>14</b>
<b>2.5</b>	<b>EARLY REDEMPTION.....</b>	<b>16</b>
<b>2.6</b>	<b>REDEMPTION FOLLOWING A NOTEHOLDER MERGER EVENT .....</b>	<b>16</b>
<b>3</b>	<b>SUCCESSION AND SUBSTITUTION EVENTS .....</b>	<b>17</b>
<b>3.1</b>	<b>GENERAL .....</b>	<b>17</b>
<b>3.2</b>	<b>MULTIPLE SUCCESSORS .....</b>	<b>17</b>
<b>3.3</b>	<b>SUBSTITUTION EVENTS WITH RESPECT TO A NON-STANDARD REFERENCE OBLIGATION .....</b>	<b>18</b>
<b>4</b>	<b>RESTRUCTURING AND MULTIPLE CREDIT EVENT NOTICES .....</b>	<b>19</b>
<b>4.1</b>	<b>SINGLE NAME CREDIT LINKED NOTES .....</b>	<b>19</b>
<b>4.2</b>	<b>BASKET CREDIT LINKED NOTES.....</b>	<b>19</b>
<b>5</b>	<b>APPLICATION OF SETTLEMENT MATRIX .....</b>	<b>20</b>
<b>III.</b>	<b>GENERAL TERMS AND CONDITIONS.....</b>	<b>21</b>
<b>1</b>	<b>FORM OF SECURITIES .....</b>	<b>21</b>
<b>2</b>	<b>STATUS OF THE NOTES / CLASSIFICATION.....</b>	<b>21</b>
<b>3</b>	<b>PAYMENTS .....</b>	<b>21</b>
<b>3.1</b>	<b>PAYMENT OF PRINCIPAL.....</b>	<b>21</b>
<b>3.2</b>	<b>PAYMENT OF INTEREST .....</b>	<b>22</b>

3.3	<b>DISCHARGE</b> .....	<b>22</b>
4	<b>ADJUSTMENTS IN ACCORDANCE WITH BUSINESS DAY CONVENTION</b> .....	<b>22</b>
5	<b>PRICE SOURCE DISRUPTION EVENT</b> .....	<b>22</b>
6	<b>SETTLEMENT DISRUPTION EVENT</b> .....	<b>23</b>
7	<b>LISTING</b> .....	<b>23</b>
8	<b>TAXATION</b> .....	<b>23</b>
9	<b>EVENTS OF DEFAULT</b> .....	<b>24</b>
10	<b>PRESCRIPTION</b> .....	<b>24</b>
11	<b>AGENTS</b> .....	<b>24</b>
11.1	<b>APPOINTMENT</b> .....	<b>24</b>
11.2	<b>VARIATION OR TERMINATION OF APPOINTMENT</b> .....	<b>25</b>
11.3	<b>AGENT OF THE ISSUER</b> .....	<b>25</b>
12	<b>APPOINTMENT OF NOMINEE</b> .....	<b>25</b>
13	<b>SUBSTITUTION OF THE ISSUER</b> .....	<b>25</b>
14	<b>DETERMINATIONS, CALCULATIONS, ROUNDING AND TIME</b> .....	<b>26</b>
15	<b>FURTHER ISSUANCES AND PURCHASES OF NOTES BY THE ISSUER</b> .....	<b>27</b>
16	<b>NOTICES</b> .....	<b>27</b>
16.1	<b>NOTICES TO THE ISSUER</b> .....	<b>27</b>
16.2	<b>NOTICES TO THE NOTEHOLDERS</b> .....	<b>27</b>
17	<b>SEVERABILITY AND AMENDMENTS</b> .....	<b>27</b>
18	<b>GOVERNING LAW AND JURISDICTION</b> .....	<b>28</b>
IV.	<b>DEFINITIONS</b> .....	<b>29</b>
V.	<b>RISK FACTORS</b> .....	<b>62</b>
1	<b>SPECIFIC RISK FACTORS RELATING TO CREDIT LINKED NOTES</b> .....	<b>62</b>
2	<b>RISK FACTORS ASSOCIATED WITH CERTAIN FEATURES OF THE NOTES</b> .....	<b>69</b>
3	<b>MARKET RISK FACTORS</b> .....	<b>71</b>
4	<b>RISK FACTORS RELATING TO THE ISSUER</b> .....	<b>73</b>
5	<b>RISK FACTORS RELATING TO POTENTIAL CONFLICTS OF INTEREST</b> .....	<b>76</b>
6	<b>RISK FACTORS RELATING TO THE INVESTMENT IN THE NOTES IN GENERAL</b> .....	<b>78</b>

**APPENDIX : 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 and a copy of the Settlement Matrix (including any supplements and/or additional provisions referred to in the Settlement Matrix) 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](mailto:swiss-prospectus@ubs.com)). In addition, for clients outside the United Kingdom, the Product Documentation and a copy of the Settlement Matrix (including any supplements and/or additional provisions referred to in the Settlement Matrix) are 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*

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 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 either a DC No Credit Event Announcement occurs, or the Calculation Agent otherwise determines that no Credit Event has occurred, with respect to the Potential Credit Event. On the fifth Business Day following such DC No Credit Event Announcement or, as the case may be, such Calculation Agent determination, or, if such DC No Credit Event Announcement or, as the case may be, such Calculation Agent determination, occurs 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**

If a Potential Credit Event 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 a DC No Credit Event Announcement occurs, or the Calculation Agent otherwise determines that no Credit Event has occurred, the Issuer shall, within 5 Business Days following such DC No Credit Event Announcement or, as the case may be, such Calculation Agent determination, or if such DC No Credit Event Announcement or, as the case may be, such Calculation Agent determination, occurs 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*), 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 Issuer 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 Deduction of Interest**

If the Issuer has paid an Interest Amount (or, in the case of Basket Credit Linked Notes, has paid a portion of an Interest Amount) to the Noteholders that would not have been payable due to the occurrence of a Credit Event in respect of a Reference Entity before the relevant Scheduled Interest Payment Date (including in the case where the relevant Credit Derivatives Determinations Committee has Resolved that a Credit Event occurred on a date falling prior to any Scheduled Interest Payment Date), the Issuer shall deduct such Interest Amount (or, in the case of Basket Credit Linked Notes, the relevant portion of such Interest Amount) from the Redemption Amount and redeem the Notes at such lower amount on the applicable Redemption Date.

#### **1.3.3 Notes with Interest subject to a Reference Rate**

##### *1.3.3.1 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.

#### *1.3.3.2 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.

#### **1.3.4 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.

#### **1.3.5 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*

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) a DC Credit Event Announcement has occurred with respect to such 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) a DC Credit Event Question Dismissal has occurred with respect to such Reference Entity or (ii) a DC Credit Event Question Dismissal has not occurred and there has been neither a DC Credit Event Announcement nor a DC No Credit Event Announcement 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 an M(M)R Restructuring and a DC Credit Event Announcement has occurred with respect to such 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 the relevant Credit Derivatives Determinations Committee has Resolved that an Auction will be held with respect to the relevant Reference Entity, 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 DC No Credit Event Announcement occurs, such DC No Credit Event Announcement shall be binding on 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

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) following a public announcement by the DC Secretary, the Calculation Agent determines 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 occurrence of a DC Credit Event Announcement with respect to such Credit Event, or (B) if neither a DC Credit Event Announcement nor a DC No Credit Event Announcement has occurred with respect to such Credit Event, 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 Outstanding Principal Balance or Due and Payable Amount, as applicable, or the equivalent amount in the Settlement Currency (in each case, the "**Outstanding Amount**") of the Selected Deliverable Obligations that are to be delivered (and, if different, the face amount of each such Selected Deliverable Obligation) 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.

In relation to redemption pursuant to this section II. 2.2.3 (*Physical Redemption*) or otherwise, references to "deliver" with respect to any obligation or asset means to deliver, novate, transfer (including, in the case of a Guarantee, transfer of the benefit of the Guarantee), assign or sell, as appropriate, in the manner customary for the settlement of the applicable Deliverable Obligations (which shall include executing all necessary documentation and taking any other necessary actions), in order to convey all right, title (or, with respect to Deliverable Obligations where only equitable title is customarily conveyed, all equitable title) and interest in the Selected Deliverable Obligations specified in the Notice of Physical Settlement or any amended Notice of Physical Settlement, as applicable, free and clear of any and all liens, charges, claims or encumbrances (excluding any liens routinely imposed on all securities in a relevant clearance system, but including, without limitation, any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in items (a) to (d) of the definition of Credit Event) or right of set-off by or of the relevant Reference Entity or any applicable Underlying Obligor); provided that (i) if a Deliverable Obligation is a Direct Loan Participation, "**deliver**" means to create (or procure the creation of) a participation in the relevant Loan and (ii) if a Deliverable Obligation is a Guarantee, "**deliver**" means to deliver both the Underlying Obligation and the Guarantee, provided further that if the Guarantee has a Fixed Cap, "deliver" means to deliver the Underlying Obligation, the Guarantee and all claims to any amounts which are subject to such Fixed Cap. In relation to redemption pursuant to this section II. 2.2.3 (*Physical Redemption*) or otherwise "**delivery**" and "**delivered**" will be construed accordingly with respect to any obligation or asset.

In the case of a Loan, delivery shall be effected using documentation substantially in the form of the documentation customarily used in the relevant market for delivery of such Loan at that time, provided further that the provisions of any documentation (which shall include any market advisory that the relevant Credit Derivatives Determinations Committee Resolves to approve for such purpose) that the relevant Credit Derivatives Determinations Committee Resolves constitutes documentation customarily used in the relevant market for delivery of such Loan at that time shall be complied with, as such documentation may be amended to the extent the relevant Credit Derivatives Determinations Committee Resolves is appropriate, which is consistent with the delivery and payment obligations hereunder. Compliance with the provisions of any such documentation shall be required for, and, without further action, constitute, delivery for purposes of this section II. 2.2.3 (*Physical Redemption*) (to the extent that such documentation contains provisions describing how delivery should be effected).

If Asset Package Delivery applies, (i) delivery of a Prior Deliverable Obligation or a Package Observable Bond specified in the Notice of Physical Settlement or any amended Notice of Physical Settlement, as applicable, may be satisfied by delivery of the related Asset Package, and such Asset Package shall be treated as having the same currency, Outstanding Principal Balance or Due and Payable Amount, as applicable, as the Prior Deliverable Obligation or Package Observable Bond to which it corresponds had immediately prior to the Asset Package Credit Event, (ii) the construction of the expression "**delivery**" set out above shall be deemed to apply to each Asset in the Asset Package provided that if any such Asset is not a Bond, it shall be treated as if it were a Loan for these purposes, (iii) if the Asset Package is zero, the Outstanding Amount of the Prior Deliverable Obligation or Package Observable Bond shall be deemed to have been delivered in full three Business Days following the date on which the detailed description of the Asset Package is notified in accordance with this section II. 2.2.3 (*Physical Redemption*), (iv) delivery of the Prior

Deliverable Obligation or Package Observable Bond may be satisfied in part by delivery of each Asset in the Asset Package in the correct proportion and (v) if the relevant Asset is a Non-Transferable Instrument or Non-Financial Instrument, the Asset shall be deemed to be an amount of cash equal to the Asset Market Value.

"**Asset Package Delivery**" will apply if an Asset Package Credit Event occurs, unless (i) such Asset Package Credit Event occurs prior to the Credit Linkage Start Date determined in respect of the relevant Credit Event, or (ii) if the relevant Reference Entity is a Sovereign, no Package Observable Bond exists immediately prior to such Asset Package Credit Event.

As used above:

"**Non-Transferable Instrument**" means any Asset which is not capable of being transferred to institutional investors, excluding due to market conditions.

"**Non-Financial Instrument**" means any Asset which is not of the type typically traded in, or suitable for being traded in, financial markets.

"**Asset Market Value**" means the market value of an Asset, as the Calculation Agent shall determine by reference to an appropriate specialist valuation or in accordance with the methodology determined by the Credit Derivatives Determinations Committee.

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 10<sup>th</sup> 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 a 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) a DC No Credit Event Announcement has occurred, or the Calculation Agent otherwise determines that no Credit Event has occurred during the relevant Reference Period, 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 DC No Credit Event Announcement or, as the case may be, such Calculation Agent determination), 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*). 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 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**

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 a 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 a DC No Credit Event Announcement relating to the Potential Failure to Pay, Potential Repudiation/Moratorium or Potential Credit Event has occurred, or the Calculation Agent otherwise determines that no Credit Event has occurred during the relevant Reference Period, 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 the occurrence of a DC No Credit Event Announcement **or, as the case may be, such Calculation Agent determination** (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*). 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 "Final Price" (expressed as a percentage) 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 Auction 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 M(M)R 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) following a public announcement by the DC Secretary, the Calculation Agent determines 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 occurrence of a DC Credit Event Announcement with respect to such Credit Event, or (B) if neither a DC Credit Event Announcement nor a DC No Credit Event Announcement has occurred with respect to such Credit Event, 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**") of 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" as specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, all as more particularly described in the definition of "Deliverable Obligation" in section IV (*Definitions*).

If Asset Package Delivery applies, obligations selected as Selected Deliverable Obligations for the purposes of determining the Valuation Final Price may include any obligation which would be permitted to be delivered in satisfaction of the delivery of a Prior Deliverable Obligation or a Package Observable Bond (in each case, as determined in the sole and absolute discretion of the Calculation Agent) if the Notes were to be redeemed by physical delivery pursuant to section II. 2.2.3 (*Physical Redemption*).

- (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 (except that if Asset Package Delivery applies and a Selected Deliverable Obligation comprises any Asset which is a Non-Transferable Instrument or a Non-Financial Instrument then the Calculation Agent will not be required to attempt firm bid quotations for such Selected Deliverable Obligation and the relevant Asset Market Value (expressed as a percentage of the Asset's Outstanding Principal Balance or Due and Payable Amount, as applicable) shall be deemed to be the highest Quotation for the purpose of the determination of the Valuation Final Price). The amount (as determined in the manner set out in this section II. 2.4.2 below) 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). 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 5<sup>th</sup> 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.

The Quotation shall be a percentage of the Selected Deliverable Obligation's Outstanding Principal Balance or Due and Payable Amount, as applicable, and "Quotation Amount" shall refer to the Selected Deliverable Obligation's Outstanding Principal Balance or Due and Payable Amount, as applicable, unless in the sole and absolute discretion of

the Calculation Agent, such amount would not result in a commercially reasonable determination, in which case the Quotation Amount will be determined by the Calculation Agent in its sole and absolute discretion.

## 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 as 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 the occurrence of a succession (or, in relation to a Reference Entity that is a Sovereign, a Sovereign Succession Event) in respect of which a Succession Date has occurred and pursuant to which one or more Successors to the relevant Reference Entity can be determined, the Issuer shall give a notice (a "**Successor Notice**") describing the same to the Noteholders. A Successor Notice must contain a description in reasonable detail of the facts relevant to the determination to be made pursuant to paragraph (a) of the definition of Successor.

The Calculation Agent will be responsible for determining, as soon as reasonably practicable after delivery of a Successor Notice and with effect from the Succession Date, any Successor or Successors under paragraph (a) of the definition of Successor; *provided* that the Calculation Agent will not make such determination if, at the time of determination, the DC Secretary has publicly announced that the relevant Credit Derivatives Determinations Committee has Resolved that there is no Successor based on the relevant succession to Relevant Obligations. The Calculation Agent will make all calculations and determinations required to be made under the definition of Successor on the basis of Eligible Information. In calculating the percentages used to determine whether an entity qualifies as a Successor under paragraph (a) of the definition of Successor, if there is a Steps Plan, the Calculation Agent shall consider all related successions in respect of such Steps Plan in aggregate as if forming part of a single succession.

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 the Transaction Type and, if a Non-Standard Reference Obligation was specified with respect to the affected Reference Entity, a Non-Standard Reference Obligation having the same Seniority Level applicable to the relevant Successor Reference Entity. Such replacement shall be effective as of the relevant Succession Date.

#### 3.2 Multiple Successors

##### 3.2.1 Single Name Credit Linked Notes

Where, pursuant to sub-section (iii), (iv) or (vi) of paragraph (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, if a Non-Standard Reference Obligation was specified with respect to the affected Reference Entity, a Non-Standard Reference Obligation having the same Seniority Level shall be determined by the Calculation Agent in its discretion;
- (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**

Where, pursuant to sub-section (iii), (iv or (vi) of paragraph (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 for which more than one Successor has been identified *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, if a Non-Standard Reference Obligation was specified with respect to the affected Reference Entity, a Non-Standard Reference Obligation having the same Seniority Level in its discretion.

### **3.3 Substitution Events with respect to a Non-Standard Reference Obligation**

If, in the opinion of the Calculation Agent (i) the Non-Standard Reference Obligation is redeemed in whole or (ii) the aggregate amounts due under the Non-Standard Reference Obligation have been reduced by redemption or otherwise below USD 10,000,000 (or its equivalent in the relevant Obligation Currency, as determined by the Calculation Agent) or (iii) for any reason, other than due to the existence or occurrence of a Credit Event, the Non-Standard Reference Obligation is no longer an obligation of a Reference Entity either directly or as a provider of a guarantee (each a "**Substitution Event**") the Calculation Agent may identify the Substitute Reference Obligation in accordance with the definition of the Substitute Reference Obligation. 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

### 4.1 Single Name Credit Linked Notes

The Issuer may give multiple Credit Event Notices with respect to any M(M)R 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; and (b) one which has an aggregate principal amount equal to the outstanding principal amount 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

The Issuer may give multiple Credit Event Notices with respect to any M(M)R 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 Application of Settlement Matrix

If the Final Terms identify a “Transaction Type” that is included in the Settlement Matrix, the terms set out in the Settlement Matrix with respect to such “Transaction Type” shall *mutatis mutandis* be deemed to apply to the Notes except to the extent otherwise specified in the relevant Final Terms.

### 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 20<sup>th</sup> 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 Source 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 other 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 wilful 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 do not prohibit 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

For the purposes of these definitions, words denoting the singular number only shall include the plural number also and vice versa.

**"Accelerated or Matured"** means an obligation under which the principal amount owed, whether by reason of maturity, acceleration, termination or otherwise, is 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.

**"Accrued Interest"** means, with respect to an obligation, any accrued but unpaid interest thereon (as the Calculation Agent shall determine in its sole and absolute discretion). The Outstanding Principal Balance of any Selected Deliverable Obligations being delivered or valued in accordance with section II. 2 (*Redemption*) will exclude accrued but unpaid interest, unless otherwise specified in the relevant Final Terms.

**"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.

**"Asset"** means each obligation, equity, amount of cash, security, fee (including any "early-bird" or other consent fee), right and/or other asset, whether tangible or otherwise and whether issued, incurred, paid or provided by the relevant Reference Entity or a third party (or any value which was realized or capable of being realized in circumstances where the right and/or other asset no longer exists).

**"Asset Market Value"** has the meaning ascribed to it in section II. 2.2.3 (*Physical Redemption*).

**"Asset Package"** means, in respect of an Asset Package Credit Event, all of the Assets in the proportion received or retained by a Relevant Holder in connection with such relevant Asset Package Credit Event (which may include the Prior Deliverable Obligation or Package Observable Bond, as the case may be). If the Relevant Holder is offered a choice of Assets or a choice of combinations of Assets, the Asset Package will be the Largest Asset Package. If the Relevant Holder is offered, receives and retains nothing, the Asset Package shall be deemed to be zero.

**"Asset Package Credit Event"** means if:

- (a) "Financial Reference Entity Terms" and "Governmental Intervention" are specified as applicable in the Settlement Matrix for the Transaction Type applicable to the Reference Entity;
  - (i) a Governmental Intervention; or
  - (ii) a Restructuring in respect of the Reference Obligation, if "Restructuring" is specified as applicable in the Settlement Matrix for the Transaction Type applicable to the Reference Entity and such Restructuring does not constitute a Governmental Intervention; and
- (b) the relevant Reference Entity is a Sovereign and "Restructuring" is specified as applicable in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, a Restructuring.

In each case, such event may be an Asset Package Credit Event whether or not such event is specified as the applicable Credit Event in the Credit Event Notice or the DC Credit Event Announcement.

"**Asset Package Delivery**" has the meaning ascribed to it in section II. 2.2.3 (*Physical Redemption*).

"**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.

"**Auction**" has the meaning ascribed to it in the Transaction Auction Settlement Terms.

"**Auction Final Price**" means the "Final Price" (expressed as a percentage) determined by ISDA for the settlement of credit derivatives transactions in an auction process in accordance with the Transaction Auction Settlement Terms 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, scheme or composition with or for the benefit of its creditors generally, or such a general assignment, arrangement, scheme or composition becomes effective; (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other similar relief under any bankruptcy or insolvency law or other 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 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).

"**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 and shall not include any other type of Borrowed Money.

"**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).

"**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;
- (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 into 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); or
- (c) the event set out in paragraph (a) of the definition of Substitution Event occurs with respect to the Reference Obligation in a Reference Obligation Only Trade.

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.

"**Conforming Reference Obligation**" means a Reference Obligation which is a Deliverable Obligation determined in accordance with paragraph (a) of the definition of Deliverable Obligation.

"**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.

"**Credit Derivatives Auction Settlement Terms**" means any Credit Derivatives Auction Settlement Terms published by ISDA, a form of which will be published by ISDA on its website at [www.isda.org](http://www.isda.org) (or any successor website thereto) from time to time and may be amended from time to time. The Calculation Agent shall be authorised to construe any Credit Derivatives Auction Settlement Terms (including any Transaction Auction Settlement Terms) in such manner as it shall determine in its sole and absolute discretion to be necessary in order to give effect to the meaning of any word or expression used herein and which is defined by reference to such Credit Derivatives Auction Settlement Terms.

"**Credit Derivatives Determinations Committees**" means the committees established pursuant to the DC Rules for the purposes of reaching certain DC Resolutions 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 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 (a) 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), as determined by DC Resolution, the date that is 60 calendar days prior to the Credit Event Resolution Request Date or (b) otherwise, the date that is 60 calendar days prior to the earlier of (i) the date on which a Credit Event Notice is delivered by the Issuer to the Noteholders and (ii) the Credit Event Resolution Request Date if the date on which a Credit Event Notice is delivered by the Issuer to the Noteholders occurs during the Post Dismissal Additional Period. 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 DC Credit Event Announcement or, if there is no DC Credit Event Announcement, to Publicly Available Information). Unless the Credit Event was determined by a Credit Derivatives Determinations Committee, the relevant Credit Event Notice shall include Publicly Available Information from at least two different sources describing the occurrence of the Credit Event.

Any Credit Event Notice that describes a Credit Event that occurred after the Scheduled Maturity Date must relate to the relevant Potential Failure to Pay, in the case of a Grace Period Extension Date, or the relevant Potential Repudiation/Moratorium, in the case of a Repudiation/Moratorium Evaluation Date.

A Credit Event Notice that describes a Credit Event other than an M(M)R Restructuring must be in respect of 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).

The Credit Event that is the subject of the Credit Event Notice need not be continuing on the date that the Credit Event Notice is given.

"**Credit Event Resolution Request Date**" means with respect to a DC Credit Event Question, the date, as publicly announced by the DC Secretary that the relevant Credit Derivatives Determinations Committee Resolves to be the date on which the DC Credit Event Question was effective and on which the relevant Credit Derivatives Determinations Committee was in possession of Publicly Available Information with respect to such DC Credit Event Question.

"**Credit Linkage End Date**" means the latest of

- (a) the Scheduled Maturity Date;
- (b) the Grace Period Extension Date if (i) Grace Period Extension and Failure to Pay are specified in the Settlement Matrix for the Transaction Type applicable to such Reference Entity, (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) Repudiation/Moratorium is specified in the Settlement Matrix for the Transaction Type applicable to such Reference Entity, (ii) 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 (iii) 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 (or if no such date is specified, the Credit Event Backstop Date).

"**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*).

"**DC Credit Event Announcement**" means, with respect to a Reference Entity, a public announcement by the DC Secretary that the relevant Credit Derivatives Determinations Committee has Resolved that an event that constitutes a Credit Event has occurred on or after the Credit Linkage Start Date and on or prior to the Credit Linkage End Date provided that if the Credit Event occurred after the Scheduled Maturity Date, the DC Credit Event Announcement

must relate to the relevant Potential Failure to Pay, in the case of a Grace Period Extension Date, or the relevant Potential Repudiation/Moratorium, in the case of a Repudiation/Moratorium Evaluation Date.

**"DC Credit Event Question"** means a notice to the DC Secretary requesting that a Credit Derivatives Determinations Committee be convened to Resolve whether an event that constitutes a Credit Event has occurred.

**"DC Credit Event Question Dismissal"** means, with respect to a Reference Entity, a public announcement by the DC Secretary that the relevant Credit Derivatives Determinations Committee has Resolved not to determine the matters described in a DC Credit Event Question.

**"DC No Credit Event Announcement"** means, with respect to a Reference Entity, a public announcement by the DC Secretary that the relevant Credit Derivatives Determinations Committee has Resolved that an event that is the subject of a DC Credit Event Question does not constitute a Credit Event.

**"DC Resolution"** has the meaning ascribed to it in the DC Rules. The Calculation Agent shall determine in its sole and absolute discretion whether, how and the extent to which any DC Resolution of the relevant Credit Derivatives Determinations Committee applies to the Notes in accordance with these General Terms and Conditions, including any DC Resolution that reverses a previous DC Resolution and the Calculation Agent may determine that any DC Resolution that reverses a previous DC Resolution shall not be effective for the purpose of these General Terms and Conditions if the Calculation Agent determines (in its sole and absolute discretion) that such DC Resolution would not be effective for the purpose of a comparable credit derivative transaction.

**"DC Rules"** means the Credit Derivatives Determinations Committee Rules published by ISDA on its website at [www.isda.org](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.

**"DC Secretary"** has the meaning ascribed to it in the DC Rules.

**"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 the amount specified as such in the relevant Final Terms or its equivalent in the relevant Obligation Currency (or, if no such amount is specified, the amount specified in the Settlement Matrix with respect to the relevant Transaction Type or, otherwise, USD 10,000,000, or, in each case, its equivalent Obligation Currency).

**"deliver", "delivery" and "delivered"**, as used in section II. (*Product Specific Terms and Conditions*), have the meanings ascribed to them in section II. 2.2.3 (*Physical Redemption*).

**"Deliverable Obligation"** means in respect of a Reference Entity

- (a) any obligation of the relevant Reference Entity (either directly or as provider of a Relevant Guarantee) described by the specified Deliverable Obligation Category and having each of the Deliverable Obligation Characteristics;
- (b) the Reference Obligation for such Reference Entity;
- (c) solely in relation to a Restructuring Credit Event applicable to a Reference Entity which is a Sovereign, and unless Asset Package Delivery is applicable, any Sovereign Restructured Deliverable Obligation; and

- (d) if Asset Package Delivery is applicable, any Prior Deliverable Obligation (if "Financial Reference Entity Terms" is specified as applicable in the Settlement Matrix for the Transaction Type applicable to the Reference Entity) or any Package Observable Bond (if the relevant Reference Entity is a Sovereign),

in each case, (i) unless it is an Excluded Deliverable Obligation and (ii) provided that the obligation has an Outstanding Principal Balance or Due and Payable Amount that is greater than zero (determined for purposes of paragraph (d), immediately prior to the relevant Asset Package Credit Event),

or any other obligation of a Reference Entity specified as such in the Final Terms,

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

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

- (a) if (i) any of the Deliverable Obligation Characteristics "Listed", "Not Domestic Issuance" 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, (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, 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;
- (b) if more than one of "Assignable Loan", "Consent Required Loan" and "Direct Loan Participation" are specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity 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;
- (c) for purposes of the application of the Deliverable Obligation Characteristic "Maximum Maturity", remaining maturity shall be determined on the basis of the terms of the Deliverable Obligation in effect at the time of making such determination and, in the case of a Deliverable Obligation that is due and payable, the remaining maturity shall be zero;
- (d) if "Financial Reference Entity Terms" and "Governmental Intervention" are specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, if an obligation would otherwise satisfy a particular Deliverable Obligation Characteristic, the existence of any terms in the relevant obligation in effect at the time of making the determination which permit the relevant Reference Entity's obligations to be

altered, discharged, released or suspended in circumstances which would constitute a Governmental Intervention, shall not cause such obligation to fail to satisfy such Deliverable Obligation Characteristic;

- (e) for purposes of determining the applicability of Deliverable Obligation Characteristics to a Prior Deliverable Obligation or a Package Observable Bond, any such determination shall be made by reference to the terms of the relevant obligation in effect immediately prior to the Asset Package Credit Event; and
- (f) if "Subordinated European Insurance Terms" is specified as applicable in the relevant Final Terms, if an obligation would otherwise satisfy the "Maximum Maturity" Deliverable Obligation Characteristic, the existence of any Solvency Capital Provisions in such obligation shall not cause it to fail to satisfy such Deliverable Obligation Characteristic.

**"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).

**"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 currency specified in the relevant Final Terms and any successor currency thereto (or if no such currency is specified, the lawful currency and any successor currency of (a) the relevant Reference Entity, if the relevant Reference Entity is a Sovereign, or (b) the jurisdiction in which the relevant Reference Entity is organised, if the relevant Reference Entity is not a Sovereign).

**"Domestic Law"** means each of the laws of (a) the relevant Reference Entity, if such Reference Entity is a Sovereign, or (b) the jurisdiction in which the relevant Reference Entity is organized, if such Reference Entity is not a Sovereign.

**"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 by a Reference Entity under the obligation whether by reason of maturity, acceleration, termination or otherwise (excluding sums in respect of default interest, indemnities, tax gross-ups and other similar amounts) less all or any portion of such amount which, pursuant to the terms of the obligation (a) is subject to any Prohibited Action, or (b) may otherwise be reduced as a result of the effluxion of time or the occurrence or non-occurrence of an event or circumstance (other than by way of (i) payment or (ii) a Permitted Contingency), in each case, determined in accordance with the terms of the obligation in effect on either (A) the date of delivery of the Notice of Physical Settlement or if the Notice of Physical Settlement is changed, the date notice of the last such change is given (or if the terms of the obligation are amended after such date but on or prior to the date for delivery of the Portfolio, the date for delivery of the Portfolio) or (B) the Valuation Date, as applicable.

**"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 as at the date that notice of the early redemption has been published in accordance with section III. 16.2 (*Notice to the Noteholders*). .

**"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.

"**Eligible Information**" means information which is publicly available or which can be made public without violating any law, agreement, understanding or other restriction regarding the confidentiality of such information.

"**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 pursuant to section II. 3.2 (*Multiple Successors*)).

"**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*).

**Excluded Deliverable Obligation** means:

- (a) any obligation of a Reference Entity specified as such or of a type described in the relevant Final Terms;
- (b) any principal only component of a Bond from which some or all of the interest components have been stripped; and
- (c) if Asset Package Delivery is applicable, any obligation issued or incurred on or after the date of the relevant Asset Package Credit Event.

**Excluded Obligation** means:

- (a) any obligation of a Reference Entity specified as such or of a type described in the relevant Final Terms;
- (b) if "Financial Reference Entity Terms" is specified as applicable in the Settlement Matrix for the Transaction Type applicable to the relevant Reference Entity and Senior Transaction is specified as applicable in the relevant Final Terms with respect to such Reference Entity, then for purposes of determining whether a Governmental Intervention or Restructuring has occurred, any Subordinated Obligation; and
- (c) if "Financial Reference Entity Terms" is specified as applicable in the Settlement Matrix for the Transaction Type applicable to the relevant Reference Entity and Subordinated Transaction is specified as applicable in the relevant Final Terms with respect to such Reference Entity, then for purposes of determining whether a Governmental Intervention or Restructuring has occurred, any Further Subordinated Obligation.

"**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*).

"**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**" has the meaning ascribed to it in section II. 2.4.1 (*Determination of the Final Price by Reference to the Auction Final Price determined by ISDA*).

"**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.

"**Fixed Cap**" means, with respect to a Guarantee, a specified numerical limit or cap on the liability of the relevant Reference Entity in respect of some or all payments due under the Underlying Obligation, provided that a Fixed Cap shall exclude a limit or cap determined by reference to a formula with one or more variable inputs (and for these purposes, the outstanding principal or other amounts payable pursuant to the Underlying Obligation shall not be considered to be variable inputs).

"**Fixing Date**" means the AUD-BBSW Fixing Date, CAD-LIBOR Fixing Date, CHF-LIBOR Fixing Date, EURIBOR Fixing Date, GBP-LIBOR Fixing Date, HIBOR Fixing Date, JIBAR Fixing Date, JPY-LIBOR Fixing Date, NIBOR Fixing Date, PRIBOR Fixing Date, SOR Fixing Date, STIBOR Fixing Date, USD-LIBOR Fixing Date, WIBOR Fixing Date or any other fixing date specified in the relevant Final Terms.

"**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.

"**Further Subordinated Obligation**" means, if the Reference Obligation or Prior Reference Obligation, as applicable, is a Subordinated Obligation, any obligation which is Subordinated thereto.

"**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, inter-governmental or supranational body, any authority or any other entity (private or public) either designated as a resolution authority or charged with the regulation or supervision of the financial markets (including a central bank) of a Reference Entity or some or all of its obligations or any other authority which is analogous to any of the entities specified above.

"**Governmental Intervention**" means:

- (a) that, 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 as a result of action taken or an announcement made by a Governmental Authority pursuant to, or by means of, a restructuring and resolution law or regulation (or any other similar law or regulation), in each case, applicable to a Reference Entity in a form which is binding, irrespective of whether such event is expressly provided for under the terms of such Obligation:
  - (i) any event which would affect creditors' rights so as to cause:
    - (A) a reduction in the rate or amount of interest payable or the amount of scheduled interest accruals (including by way of redenomination);
    - (B) a reduction in the amount of principal or premium payable at redemption (including by way of redenomination);

- (C) a postponement or other deferral of a date or dates for either (I) the payment or accrual of interest, or (II) the payment of principal or premium; or
  - (D) a change in the ranking in priority of payment of any Obligation, causing the Subordination of such Obligation to any other Obligation;
- (ii) an expropriation, transfer or other event which mandatorily changes the beneficial holder of the Obligation;
  - (iii) a mandatory cancellation, conversion or exchange; or
  - (iv) any event which has an analogous effect to any of the events specified in paragraphs (a)(i) to (iii).
- (b) For purposes of paragraph (a) of this definition of Governmental Intervention, the term Obligation shall be deemed to include Underlying Obligations for which the relevant Reference Entity is acting as provider of a Guarantee.

**"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 or, if a place or places are not so specified, (a) if the Obligation Currency is the euro, a TARGET Settlement Day, or (b) otherwise, a day on which commercial banks and foreign exchange markets are generally open to settle payments in the principal financial city in the jurisdiction of the Obligation Currency.

**"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"** means a Relevant Guarantee or a guarantee which is the Reference Obligation.

**"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.

**"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 conduct of an Auction or the determination or announcement of an Auction Final Price including, without limitation, Creditex Group Inc. and Markit Group Ltd.

"**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.

"**Largest Asset Package**" means, in respect of a Prior Deliverable Obligation or a Package Observable Bond, as the case may be, the package of Assets for which the greatest amount of principal has been or will be exchanged or converted (including by way of amendment), as determined by the Calculation Agent by reference to Eligible Information. If this cannot be determined, the Largest Asset Package will be the package of Assets with the highest immediately realisable value, determined by the Calculation Agent in accordance with the methodology, if any, determined by the relevant Credit Derivatives Determinations Committee.

"**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).

"**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 of not greater than thirty years (unless otherwise specified in the Settlement Matrix for the Transaction Type applicable to the relevant Reference Entity).

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

"**M(M)R Restructuring**" means a Restructuring Credit Event in respect of which either "Mod R" or "Mod Mod R" is applicable pursuant to the Settlement Matrix and Transaction Type of the Reference Entity.

"**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.

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

"**Non-Conforming Reference Obligation**" means a Reference Obligation which is not a Conforming Reference Obligation.

"**Non-Conforming Substitute Reference Obligation**" means an obligation which would be a Deliverable Obligation determined in accordance with paragraph (a) of the definition of Deliverable Obligation on the Substitution Date but for one or more of the same reasons which resulted in the Reference Obligation constituting a Non-Conforming Reference Obligation on the date it was issued or incurred and/or immediately prior to the Substitution Event Date (as applicable).

"**Non-Financial Instrument**" has the meaning ascribed to it in section II. 2.2.3 (*Physical Redemption*).

"**Non-Standard Reference Obligation**" means the Original Non-Standard Reference Obligation or if a Substitute Reference Obligation has been determined, the Substitute Reference Obligation.

"**Non-Transferable Instrument**" has the meaning ascribed to it in section II. 2.2.3 (*Physical Redemption*).

"**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 Domestic Currency"** means any obligation that is payable in any currency other than the applicable Domestic Currency provided that a Standard Specified Currency shall not constitute a Domestic Currency.

**"Not Domestic Issuance"** means any obligation other than an obligation that was issued (or reissued, as the case may be) or intended to be offered for sale primarily in the domestic market of the relevant Reference Entity. Any obligation that is registered or, as a result of some other action having been taken for such purpose, is qualified for sale outside the domestic market of the relevant Reference Entity (regardless of whether such obligation is also registered or qualified for sale within the domestic market of the Reference Entity) shall be deemed not to be issued (or reissued, as the case may be), or intended to be offered for sale primarily in the domestic market of the relevant Reference Entity.

**"Not Domestic Law"** means any obligation that is not governed by the applicable Domestic Law, provided that the laws of England and the laws of the State of New York shall not constitute a Domestic Law.

**"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 that is not Subordinated (as defined in the definition of Subordination) to (I) the Reference Obligation or (II) the Prior Reference Obligation, if applicable.

**"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 in relation to a Reference Entity (i) any obligation of the Reference Entity (either directly or as the provider of a Relevant 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 (in each case immediately prior to 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). In any case, an Excluded Obligation shall not be an Obligation.

**"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 Obligation 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 Settlement Matrix for the Transaction Type applicable to the Reference Entity, provided that:

- (a) if either of the Obligation Characteristics "Listed" or "Not Domestic Issuance" is specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, the relevant Final Terms shall be construed as though the relevant Obligation Characteristic had been specified as an Obligation Characteristic only with respect to Bonds; and

- (b) if "Financial Reference Entity Terms" and "Governmental Intervention" are specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, if an obligation would otherwise satisfy a particular Obligation Characteristic, the existence of any terms in the relevant obligation in effect at the time of making the determination which permit the relevant Reference Entity's obligations to be altered, discharged, released or suspended in circumstances which would constitute a Governmental Intervention, shall not cause such obligation to fail to satisfy such Obligation Characteristic.

**"Obligation Currency"** means the currency or currencies in which an Obligation is denominated.

**"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.

**"Original Non-Standard Reference Obligation"** means the obligation of a Reference Entity (either directly or as provider of a guarantee) which is specified in the Final Terms as the Reference Obligation (if any is so specified) provided that if an obligation is not an obligation of the relevant Reference Entity, such obligation will not constitute a valid Original Non-Standard Reference Obligation (other than for the purposes of determining the Seniority Level and for the "Not Subordinated" Obligation Characteristic or "Not Subordinated" Deliverable Obligation Characteristic) unless (a) this provision is expressly amended or overridden in the Final Terms, or (b) Reference Obligation Only Trade is applicable.

**"Outstanding Amount"** has the meaning ascribed to it in section II. 2.2.3 (*Physical Redemption*).

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

**"Outstanding Principal Balance"** of an obligation means an amount calculated as follows:

- (a) (i) first, by determining, in respect of the obligation, the amount of the relevant Reference Entity's principal payment obligations and, where applicable in accordance with the definition of Accrued Interest, the relevant Reference Entity's accrued but unpaid interest payment obligations (which, in the case of a Guarantee will be the lower of (A) the Outstanding Principal Balance (including accrued but unpaid interest, where applicable) of the Underlying Obligation (determined as if references to the relevant Reference Entity were references to the Underlying Obligor) and (B) the amount of the Fixed Cap, if any);
- (ii) second, by subtracting all or any portion of such amount which, pursuant to the terms of the obligation, (A) is subject to any Prohibited Action, or (B) may otherwise be reduced as a result of the effluxion of time or the occurrence or non-occurrence of an event or circumstance (other than by way of (I) payment or (II) a Permitted Contingency) (the amount determined in paragraph (a)(i) less any amounts subtracted in accordance with paragraph (a)(ii), the **"Non-Contingent Amount"**); and
- (iii) third, by determining the Quantum of the Claim, which shall then constitute the Outstanding Principal Balance, in each case, determined:
- (A) unless otherwise specified, in accordance with the terms of the obligation in effect on either (I) the date of delivery of the Notice of Physical Settlement or if the Notice of Physical Settlement is changed, the date notice of the last such change is given (or if the terms of the obligation are amended after such date but on or prior to the date for delivery of the Portfolio, the date for delivery of the Portfolio), or (II) the Valuation Date, as applicable; and

(B) with respect to the Quantum of the Claim only, in accordance with any applicable laws (insofar as such laws reduce or discount the size of the claim to reflect the original issue price or accrued value of the obligation).

(b) "**Quantum of the Claim**" means the lowest amount of the claim which could be validly asserted against a Reference Entity in respect of the Non-Contingent Amount if the obligation had become redeemable, been accelerated, terminated or had otherwise become due and payable at the time of the relevant determination, provided that the Quantum of the Claim cannot exceed the Non-Contingent Amount.

"**Package Observable Bond**" means, in respect of a Reference Entity which is a Sovereign, any obligation (a) which is identified as such and published by ISDA on its website at [www.isda.org](http://www.isda.org) from time to time (or any successor website thereto) or by a third party designated by ISDA on its website from time to time and (b) which fell within the definition of Deliverable Obligation set out in (a) or (b) of the definition of Deliverable Obligation, in each case, immediately preceding the date on which the relevant Asset Package Credit Event was legally effective.

"**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 the amount specified as such in the relevant Final Terms or its equivalent in the relevant Obligation Currency (or, if no such amount is specified, the amount specified in the Settlement Matrix with respect to the relevant Transaction Type or, otherwise, USD 1,000,000, or, in each case, its equivalent in the relevant Obligation Currency).

"**Permitted Contingency**" means, with respect to an obligation, any reduction to a Reference Entity's payment obligations:

(a) as a result of the application of:

- (i) any provisions allowing a transfer, pursuant to which another party may assume all of the payment obligations of such Reference Entity;
- (ii) provisions implementing the Subordination of the obligation;
- (iii) provisions allowing for a Permitted Transfer in the case of a Qualifying Guarantee (or provisions allowing for the release of such Reference Entity from its payment obligations in the case of any other Guarantee);
- (iv) any Solvency Capital Provisions, if "Subordinated European Insurance Terms" is specified as applicable pursuant to the Settlement Matrix and Transaction Type of the Reference Entity; or
- (v) provisions which permit such Reference Entity's obligations to be altered, discharged, released or suspended in circumstances which would constitute a Governmental Intervention, if "Financial Reference Entity Terms" is specified as applicable pursuant to the Settlement Matrix and Transaction Type of the Reference Entity; or

- (b) which is within the control of the holders of the obligation or a third party acting on their behalf (such as an agent or trustee) in exercising their rights under or in respect of such obligation.

**"Permitted Transfer"** means, with respect to a Qualifying Guarantee, a transfer to and the assumption by any single transferee of such Qualifying Guarantee (including by way of cancellation and execution of a new guarantee) on the same or substantially the same terms, in circumstances where there is also a transfer of all (or substantially all) of the assets of the relevant Reference Entity to the same single transferee.

**"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 occurrence of a DC Credit Event Announcement with respect to the relevant Credit Event, or (b) if neither a DC Credit Event Announcement nor a DC No Credit Event Announcement has occurred with respect to the relevant Credit Event, 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 Outstanding Principal Balance (in the case of Deliverable Obligations that are Borrowed Money) or the aggregate Due and Payable Amount (in the case of Deliverable Obligations that are not Borrowed Money) (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 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.

**"Post Dismissal Additional Period"** means the period from and including the date of the DC Credit Event Question Dismissal to and including the date that is fourteen calendar days thereafter (provided that the relevant Credit Event Resolution Request Date occurred on or prior to the date that is fourteen calendar days after the Credit Linkage End Date (including prior to the Trade Date)).

**"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) a DC Credit Event Announcement has occurred 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 in accordance with the terms of such Obligations at the time of such failure, without regard to any grace period or any conditions precedent to the commencement of any grace period applicable to such Obligations.

**"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).

**"Prior Deliverable Obligation"** means:

- (a) if a Governmental Intervention has occurred (whether or not such event is specified as the applicable Credit Event in the Credit Event Notice or the DC Credit Event Announcement), any obligation of the relevant Reference Entity which (i) existed immediately prior to such Governmental Intervention, (ii) was the subject of such Governmental Intervention and (iii) fell within the definition of Deliverable Obligation set out in part

(a) or (b) of the definition of Deliverable Obligation, in each case, immediately preceding the date on which such Governmental Intervention was legally effective; or

- (b) if a Restructuring which does not constitute a Governmental Intervention has occurred in respect of the Reference Obligation (whether or not such event is specified as the applicable Credit Event in the Credit Event Notice or the DC Credit Event Announcement), such Reference Obligation, if any.

**"Prior Reference Obligation"** means, in circumstances where there is no applicable Reference Obligation, (I) the Reference Obligation most recently applicable, if any, and otherwise, (II) the obligation specified in the relevant Final Terms as the Reference Obligation, if any, if such Reference Obligation was redeemed on or prior to the Trade Date and otherwise, (III) any unsubordinated Borrowed Money obligation of the relevant Reference Entity.

**"Private-side Loan"** means a Loan in respect of which the documentation governing its terms is not publicly available or capable of being made public without violating a law, agreement, understanding or other restriction regarding the confidentiality of such information.

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

**"Prohibited Action"** means any counterclaim, defence (other than a counterclaim or defence based on the factors set forth in paragraphs (a) to (d) of the definition of Credit Event) or right of set off by or of a Reference Entity or any applicable Underlying Obligor.

**"Public Source"** means each of Bloomberg, Reuters, Dow Jones Newswires, The Wall Street Journal, The New York Times, Nihon KeizaiShimbun, AsahiShimbun, Yomiuri Shimbun, Financial Times, La Tribune, Les Echos, The Australian Financial Review and Debtwire (and any successor publications), the main source(s) of business news in the country in which a 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;
- (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; or
- (iii) is information contained in any order, decree, notice, petition or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body,

provided that where any information of the type described above in sections (ii) or (iii) is not publicly available, it can only constitute Publicly Available Information if it can be made public without violating any law, agreement, understanding or other restriction regarding the confidentiality of such information.

In relation to any information described above in sections (ii) or (iii), 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.

Without limitation, 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.

"**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 Guarantee**" means a guarantee evidenced by a written instrument (which may include a statute or regulation), pursuant to which a Reference Entity irrevocably agrees, undertakes, or is otherwise obliged to pay all amounts of principal and interest (except for amounts which are not covered due to the existence of a Fixed Cap) due under an Underlying Obligation for which the Underlying Obligor is the obligor, by guarantee of payment and not by guarantee of collection (or, in either case, any legal arrangement which is equivalent thereto in form under the relevant governing law).

A Qualifying Guarantee shall not include any guarantee:

- (i) which is structured as a surety bond, financial guarantee insurance policy, letter of credit (or any legal arrangement which is equivalent thereto in form); or
- (ii) pursuant to the terms applicable thereto, the principal payment obligations of the relevant Reference Entity can be discharged, released, reduced, assigned or otherwise altered as a result of the occurrence or non-occurrence of an event or circumstance, in each case, other than:
  - (i) by payment;
  - (ii) by way of Permitted Transfer;
  - (iii) by operation of law;
  - (iv) due to the existence of a Fixed Cap; or
  - (v) due to:
    - (A) provisions permitting or anticipating a Governmental Intervention, if "Financial Reference Entity Terms" is specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity; or
    - (B) any Solvency Capital Provisions, if "Subordinated European Insurance Terms" is specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity.

If the guarantee or Underlying Obligation contains provisions relating to the discharge, release, reduction, assignment or other alteration of the principal payment obligations of the relevant Reference Entity and such provisions have ceased to apply or are suspended at the time of the relevant determination, in accordance with the terms of such guarantee or Underlying Obligation, due to or following the occurrence of (I) a non-payment in respect of the guarantee or the Underlying Obligation, or (II) an event of the type described in the definition of Bankruptcy in respect of the relevant Reference Entity or the Underlying Obligor, then it shall be deemed for these purposes that such cessation or suspension is permanent, notwithstanding the terms of the guarantee or Underlying Obligation.

In order for a guarantee to constitute a Qualifying Guarantee:

- (x) the benefit of such guarantee must be capable of being delivered together with the delivery of the Underlying Obligation; and
- (y) if a guarantee contains a Fixed Cap, all claims to any amounts which are subject to such Fixed Cap must be capable of being delivered together with the delivery of such guarantee.

"**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.

"**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. 1.3.3 (*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. Any Successor to a Reference Entity either (a) identified by the Calculation Agent pursuant to section II. 3 (*Succession and Substitution Events*) on or following the Trade Date, or (b) identified pursuant to a DC Resolution in respect of a Successor Resolution Request Date and publicly announced by the DC Secretary on or following the Trade Date shall, in each case, with effect from the Succession Date, be a Reference Entity (as determined pursuant and subject as provided in section II. 3 (*Succession and Substitution Events*)).

"**Reference Obligation**" means in respect of a Reference Entity, the Standard Reference Obligation, if any, unless:

- (a) "Standard Reference Obligation" is specified in the Final Terms as not applicable, in which case the Reference Obligation will be the Non-Standard Reference Obligation, if any; or
- (b) (i) "Standard Reference Obligation" is specified as applicable in the Final Terms (or no election is specified), (ii) there is no Standard Reference Obligation and (iii) a Non-Standard Reference Obligation is specified in the Final Terms, in which case the Reference Obligation will be (A) the Non-Standard Reference Obligation to but excluding the first date of publication of the Standard Reference Obligation and (B) the Standard Reference Obligation from such date onwards, provided that the Standard Reference Obligation that is published would have been eligible to be selected as a Substitute Reference Obligation.

"**Reference Obligation Only**" means in relation to a Reference Entity any obligation that is a Reference Obligation and no Obligation Characteristics shall be applicable to Reference Obligation Only.

"**Reference Obligation Only Trade**" means in respect of a Reference Entity (a) "Reference Obligation Only" is specified in the Final Terms as the Obligation Category and the Deliverable Obligation Category and (b) "Standard Reference Obligation" is specified in the Final Terms as not applicable. If the event set out in paragraph (a) of the definition of Substitution Event occurs with respect to the Reference Obligation in a Reference Obligation Only Trade, the Issuer shall, as soon as reasonably practicable thereafter, give notice to the Noteholders designating a date for redemption of the Notes and the relevant portion of the Notes shall be redeemed at an amount in the currency of the Specified Denomination of the Notes equal to the outstanding nominal amount of the Notes to be redeemed minus the Breakage Costs, subject to a minimum of zero, unless the Notes have otherwise fallen due for redemption.

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



"Reference Rate" means any one of the following rates, as specified in the relevant Final Terms, or any other rate specified in the relevant Final Terms:

- (i) "**AUD-BBSW**" or "**AUD-BBR-BBSW**" means that the rate for a Reset Date will be the average mid rate, for Australian Dollar bills of exchange having a tenor of the Designated Maturity, which appears on the Reuters Screen BBSW Page at or around 10:10 a.m., Sydney time, on that Reset Date (the "**AUD-BBSW Fixing Date**").
- (ii) "**CAD-LIBOR**" or "**CAD-LIBOR-BBA**" means that the rate for a Reset Date will be the rate for deposits in Canadian Dollars for a period of the Designated Maturity which appears on the Reuters Screen LIBOR01 Page at or around 11:00 a.m., London time, on the day that is two London Banking Days preceding that Reset Date (the "**CAD-LIBOR Fixing Date**").
- (iii) "**CHF-LIBOR**" or "**CHF-LIBOR-BBA**" means that the rate for a Reset Date will be the rate for deposits in Swiss Francs for a period of the Designated Maturity which appears on the Reuters Screen LIBOR02 Page at or around 11:00 a.m., London time, on the day that is two London Banking Days preceding that Reset Date (the "**CHF-LIBOR Fixing Date**").
- (iv) "**EURIBOR**" or "**EUR-EURIBOR-Reuters**" means that the rate for a Reset Date will be the rate for deposits in Euros for a period of the Designated Maturity which appears on the Reuters Screen EURIBOR01 Page at or around 11:00 a.m., Brussels time, on the day that is two TARGET Settlement Days preceding that Reset Date (the "**EURIBOR Fixing Date**").
- (v) "**GBP-LIBOR**" or "**GBP-LIBOR-BBA**" means that the rate for a Reset Date will be the rate for deposits in Sterling for a period of the Designated Maturity which appears on the Reuters Screen LIBOR01 Page at or around 11:00 a.m., London time, on that Reset Date (the "**GBP-LIBOR Fixing Date**").
- (vi) "**HIBOR**" or "**HKD-HIBOR**" or "**HKD-HIBOR-HIBOR**" means that the rate for a Reset Date will be the rate for deposits in Hong Kong Dollars for a period of the Designated Maturity which appears on the Reuters Screen HIBOR1=R Page (for Designated Maturities of one month to six months, inclusive) or the Reuters Screen HIBOR2=R Page (for Designated Maturities of seven months to one year, inclusive), in each case across from the caption "FIXING@11:00" at or around 11:00 a.m., Hong Kong time, on that Reset Date (the "**HIBOR Fixing Date**").
- (vii) "**JIBAR**" or "**ZAR-JIBAR**" or "**ZAR-JIBAR-SAFEX**" means that the rate for a Reset Date will be the midmarket rate for deposits in South African Rand for a period of the Designated Maturity which appears on the Reuters Screen SAFEX Page under the caption "YIELD" at or around 11:00 a.m., Johannesburg time, on that Reset Date (the "**JIBAR Fixing Date**").
- (viii) "**JPY-LIBOR**" or "**JPY-LIBOR-BBA**" means that the rate for a Reset Date will be the rate for deposits in Yen for a period of the Designated Maturity which appears on the Reuters Screen 3750 Page at or around 11:00 a.m., London time, on the day that is two London Banking Days preceding that Reset Date (the "**JPY-LIBOR Fixing Date**").
- (ix) "**NIBOR**" or "**NOK-NIBOR-NIBR**" means that the rate for a Reset Date will be the rate for deposits in Norwegian Kroner for a period of the Designated Maturity which appears on the Reuters Screen NIBR Page at or around 12:00 noon, Oslo time, on the day that is two Oslo Banking Days preceding that Reset Date (the "**NIBOR Fixing Date**").
- (x) "**PRIBOR**" or "**CZK-PRIBOR**" or "**CZK-PRIBOR-PRBO**" means that the rate for a Reset Date will be the offered rate for deposits in Czech Korunas for a period of the Designated Maturity which appears on the

Reuters Screen PRBO Page at or around 11:00 a.m., Prague time, on the day that is two Prague Banking Days preceding that Reset Date (the "**PRIBOR Fixing Date**").

- (xi) "**SOR**" or "**SGD-SOR**" or "**SGD-SOR-Reuters**" means that the rate for a Reset Date will be the synthetic rate for deposits in Singapore Dollars for a period of the Designated Maturity which appears on the Reuters Screen ABSIRFIX01 Page under the heading "SGD SWAP OFFER" at or around 11:00 a.m., Singapore time, on the day that is two Singapore Banking Days preceding that Reset Date (the "**SOR Fixing Date**").
- (xii) "**STIBOR**" or "**SEK-STIBOR**" or "**SEK-STIBOR-SIDE**" means that the rate for a Reset Date will be the rate for deposits in Swedish Kronor for a period of the Designated Maturity which appears on the Reuters Screen SIDE Page under the caption "FIXINGS" at or around 11:00 a.m., Stockholm time, on the day that is two Stockholm Banking Days preceding that Reset Date (the "**STIBOR Fixing Date**").
- (xiii) "**USD-LIBOR**" or "**USD-LIBOR-BBA**" means that the rate for a Reset Date will be the rate for deposits in U.S. Dollars for a period of the Designated Maturity which appears on the Reuters Screen LIBOR01 at or around 11:00 a.m., London time, on the day that is two London Banking Days preceding that Reset Date (the "USD-LIBOR Fixing Date").
- (xiv) "**WIBOR**" or "**PLZ-WIBOR**" or "**PLZ-WIBOR-WIBO**" means that the rate for a Reset Date will be the offered rate for deposits in Polish Zloty for a period of the Designated Maturity which appears on **the** Reuters Screen WIBO Page at or around 11:00 a.m., Warsaw time, on the day that is two Warsaw Banking Days preceding that Reset Date (the "**WIBOR Fixing Date**").

"**Relevant Guarantee**" means a Qualifying Affiliate Guarantee or, if "All Guarantees" is specified in the Settlement Matrix for the Transaction Type applicable to the Reference Entity, a Qualifying Guarantee.

If an Obligation or a Deliverable Obligation is a Relevant Guarantee, the following will apply:

- (i) for the purposes of applying the Obligation Category and the Deliverable Obligation Category, the Relevant 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 Relevant Guarantee and the Underlying Obligation must satisfy on the relevant date or dates each of the applicable specified Obligation Characteristics or Deliverable Obligation Characteristics from the following list:
    - Not Subordinated
    - Specified Currency
    - Not Sovereign Lender
    - Not Domestic Currency
    - Not Domestic Law.
  - (b) only the Underlying Obligation must satisfy on the relevant date or dates each of the applicable specified Obligation Characteristics or Deliverable Obligation Characteristics from the following list:
    - Listed
    - Not Domestic Issuance
    - Assignable Loan
    - Consent Required Loan

Direct Loan Participation  
Transferable  
Maximum Maturity  
Accelerated or Matured  
Not Bearer; and

- (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.

**"Relevant Holder"** means a holder of the Prior Deliverable Obligation or Package Observable Bond, as the case may be, with an Outstanding Principal Balance or Due and Payable Amount, as applicable, immediately prior to the relevant Asset Package Credit Event, equal to the Outstanding Amount specified in respect of such Prior Deliverable Obligation or Package Observable Bond in the Notice of Physical Settlement, or amended Notice of Physical Settlement, as applicable.

**"Relevant Obligations"** means the Obligations of a Reference Entity which fall within the Obligation Category "Bond or Loan" and which are outstanding immediately prior to the Succession Date (or, if there is a Steps Plan, immediately prior to the legally effective date of the first succession), provided that:

- (i) any Bonds or Loans outstanding between the relevant Reference Entity and any of its Affiliates, or held by such Reference Entity, shall be excluded;
- (ii) if there is a Steps Plan, the Calculation Agent shall, for purposes of the determination required to be made under paragraph (a) of the definition of Successor, make the appropriate adjustments required to take account of any Obligations of the relevant Reference Entity which fall within the Obligation Category "Bond or Loan" that are issued, incurred, redeemed, repurchased or cancelled from and including the legally effective date of the first succession to and including the Succession Date;
- (iii) if "Financial Reference Entity Terms" is specified in the Settlement Matrix for the Transaction Type applicable to such Reference Entity and if Senior Transaction applies with respect to the relevant Reference Entity, the Relevant Obligations shall only include the Senior Obligations of the relevant Reference Entity which fall within the Obligation Category "Bond or Loan"; and
- (iv) if "Financial Reference Entity Terms" is specified in the Settlement Matrix for the Transaction Type applicable to such Reference Entity, and if Subordinated Transaction applies with respect to the relevant Reference Entity, Relevant Obligations shall exclude Senior Obligations and any Further Subordinated Obligations of the relevant Reference Entity which fall within the Obligation Category "Bond or Loan", provided that if no such Relevant Obligations exist, "Relevant Obligations" shall have the same meaning as it would if Senior Transaction applied with respect to the relevant Reference Entity.

**"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.

**"Resolve"** has the meaning given to that term in the DC Rules and **"Resolved"**, **"Resolves"** and **"Resolving"** shall be construed accordingly.

**"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 a 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 (including, in each case, in respect of Bonds only, by way of an exchange), and such event is not expressly provided for under the terms of such Obligation in effect as of the later of the Credit Event Backstop Date and 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 (including by way of redenomination);
  - (ii) a reduction in the amount of principal or premium payable at redemption (including by way of redenomination);
  - (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 of any payment of interest, principal or premium to any currency other than the lawful currency 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 (which in the case of the euro, shall mean the currency which succeeds to and replaces the euro in whole).
- (b) Notwithstanding the provisions of paragraph (a) of this definition of Restructuring, none of the following shall constitute a Restructuring:
  - (i) the payment in euros of interest, principal or premium 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 redenomination from euros into another currency, if (A) the redenomination occurs as a result of action taken by a Governmental Authority of a Member State of the European Union which is of general application in the jurisdiction of such Governmental Authority and (B) a freely available

market rate of conversion between euros and such other currency existed at the time of such redenomination and there is no reduction in the rate or amount of interest, principal or premium payable, as determined by reference to such freely available market rate of conversion;

- (iii) the occurrence of, agreement to or announcement of any of the events described in paragraphs (a)(i) to (v) of this definition of Restructuring due to an administrative adjustment, accounting adjustment or tax adjustment or other technical adjustment occurring in the ordinary course of business; and
  - (iv) the occurrence of, agreement to or announcement of any of the events described in paragraphs (a)(i) to (v) of this definition of Restructuring in circumstances where such event does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of a Reference Entity provided that in respect of paragraph (a)(v) of this definition of Restructuring only, no such deterioration in the creditworthiness or financial condition of a Reference Entity is required where the redenomination is from euros into another currency and occurs as a result of action taken by a Governmental Authority of a Member State of the European Union which is of general application in the jurisdiction of such Governmental Authority.
- (c) Unless Multiple Holder Obligation is specified in the Settlement Matrix as not applicable with respect to the Transaction Type of a Reference Entity, then, notwithstanding anything to the contrary in this definition of Restructuring, the occurrence of, agreement to, or announcement of, any of the events described in paragraphs (a)(i) to (v) of this definition of Restructuring shall not be a Restructuring unless the Obligation in respect of any such events is a Multiple Holder Obligation.
- (d) For the purposes of this definition of Restructuring and the definition of Multiple Holder Obligation, the term Obligation shall be deemed to include Underlying Obligations for which the relevant Reference Entity is acting as provider of a Guarantee. In the case of a Guarantee and an Underlying Obligation references to the Reference Entity in paragraph (a) above of this definition of Restructuring shall be deemed to refer to the Underlying Obligor and the reference to the Reference Entity in paragraph (b) above of this definition of Restructuring shall continue to refer to the Reference Entity.
- (e) If an exchange has occurred, the determination as to whether one of the events described under paragraphs (a)(i) to (v) of this definition of Restructuring has occurred will be based on a comparison of the terms of the Bond immediately prior to such exchange and the terms of the resulting obligations immediately following such exchange.

"**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).

"**Senior Obligation**" means any obligation which is not Subordinated to any unsubordinated Borrowed Money obligation of a Reference Entity.

"**Senior Transaction**" means, with respect to a Reference Entity, that (a) the Reference Obligation or Prior Reference Obligation, as applicable, in relation to such Reference Entity is a Senior Obligation, or (b) there is no Reference Obligation or Prior Reference Obligation in relation to such Reference Entity.

"**Seniority Level**" means, with respect to an obligation of a Reference Entity, (a) "Senior Level" or "Subordinated Level" as specified in the Final Terms, or (b) if no such seniority level is specified, "Senior Level" if the Original Non-Standard Reference Obligation is a Senior Obligation or "Subordinated Level" if the Original Non-Standard Reference Obligation is a Subordinated Obligation, failing which (c) "Senior Level".

"**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 "Credit Derivatives Physical Settlement Matrix", as most recently amended and supplemented as at the Trade Date (unless otherwise provided in the terms of the Notes) and as published by ISDA on its website at [http://www.isda.org/c\\_and\\_a/Credit-Derivatives-Physical-Settlement-Matrix.html](http://www.isda.org/c_and_a/Credit-Derivatives-Physical-Settlement-Matrix.html) (or any successor website thereto) (which website or any such successor website shall not form part of the Final Terms); provided that if the Calculation Agent determines in its sole and absolute discretion that any provision in the Credit Derivatives Physical Settlement Matrix is not relevant to the Notes or is inconsistent with any other provision of these General Terms and Conditions or the Final Terms, then such provision shall be ignored to the extent that the Calculation Agent so determines it not to be relevant or to be inconsistent.

If and to the extent that the Settlement Matrix refers to the application of any supplement and/or additional provisions with respect to a Transaction Type, the Calculation Agent shall determine the application of such supplement and/or additional provisions to the Notes in accordance with section II. 5 (*Application of Settlement Matrix*).

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

"**Solvency Capital Provisions**" means any terms in an obligation which permit the relevant Reference Entity's payment obligations thereunder to be deferred, suspended, cancelled, converted, reduced or otherwise varied and which are necessary in order for the obligation to constitute capital resources of a particular tier.

"**Sovereign**" means any state, political subdivision or government, or any agency, instrumentality, ministry, department or other authority acting in a governmental capacity (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 thereof acting in a governmental capacity.

"**Sovereign Restructured Deliverable Obligation**" means an Obligation of a Sovereign Reference Entity (either directly or as provider of a Relevant Guarantee) (a) in respect of which a Restructuring that is the subject of the relevant Credit Event Notice or DC Credit Event Announcement 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.

**"Sovereign Succession Event"** means, with respect to a Reference Entity that is a Sovereign, an annexation, unification, secession, partition, dissolution, consolidation, reconstitution or other similar event.

**"Specified Currency"** means an obligation that is payable in the currency or currencies specified as such in the Final Terms (or, if "Specified Currency" is specified and no currency is so specified, any Standard Specified Currency), provided that if the euro is a Specified Currency, "Specified Currency" shall also include an obligation that was previously payable in the euro, regardless of any redenomination thereafter if such redenomination occurred as a result of action taken by a Governmental Authority of a Member State of the European Union which is of general application in the jurisdiction of such Governmental Authority.

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

**"SRO List"** means the list of Standard Reference Obligations as published by ISDA on its website at [www.isda.org](http://www.isda.org) from time to time (or any successor website thereto) or by a third party designated by ISDA on its website from time to time.

**"Standard Reference Obligation"** means the obligation of a Reference Entity with the relevant Seniority Level which is specified from time to time on the SRO List.

**"Standard Specified Currency"** means each of the lawful currencies of Canada, Japan, Switzerland, France, Germany, the United Kingdom and the United States of America and the euro and any successor currency to any of the aforementioned currencies (which in the case of the euro, shall mean the currency which succeeds to and replaces the euro in whole).

**"Steps Plan"** means a plan evidenced by Eligible Information contemplating that there will be a series of successions to some or all of the Relevant Obligations of the relevant Reference Entity, by one or more entities.

**"Subordinated Obligation"** means any obligation which is Subordinated to any unsubordinated Borrowed Money obligation of a Reference Entity or which would be so Subordinated if any unsubordinated Borrowed Money obligation of the relevant Reference Entity existed.

**"Subordinated Transaction"** means, with respect to a Reference Entity, that the Reference Obligation or Prior Reference Obligation, as applicable, is a Subordinated Obligation.

**"Subordination"** means, with respect to an obligation (the **"Second Obligation"**) and another obligation of a Reference Entity to which such obligation is being compared (the **"First Obligation"**), a contractual, trust or similar arrangement providing that (I) upon the liquidation, dissolution, reorganisation or winding-up of such Reference Entity, claims of the holders of the First Obligation are required to be satisfied prior to the claims of the holders of the Second Obligation, or (II) the holders of the Second Obligation will not be entitled to receive or retain principal payments in respect of their claims against such Reference Entity at any time that such Reference Entity is in payment arrears or is otherwise in default under the First 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, (x) the existence of preferred creditors arising by operation of law or of collateral, credit support or other credit enhancement or security 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 relevant Reference Entity is a Sovereign and (y) in the case of the Reference Obligation or the Prior Reference Obligation, as applicable, the ranking in priority of payment shall be determined as of the date as of which it was

issued or incurred (or in circumstances where the Reference Obligation or a Prior Reference Obligation is the Standard Reference Obligation and "**Standard Reference Obligation**" is specified in the relevant Final Terms as applicable, then the priority of payment of the Reference Obligation or the Prior Reference Obligation, as applicable, shall be determined as of the date of selection) and, in each case, shall not reflect any change to such ranking in priority of payment after such date.

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

"**Substitute Reference Obligation**" means, with respect to a Non-Standard Reference Obligation to which a Substitution Event has occurred, the obligation that will replace the Non-Standard Reference Obligation, determined by the Calculation Agent as follows:

- (a) The Calculation Agent shall (in its sole and absolute discretion) identify the Substitute Reference Obligation in accordance with paragraphs (c), (d) and (e) of this definition of Substitute Reference Obligation to replace the Non-Standard Reference Obligation; provided that the Calculation Agent will not identify an obligation as the Substitute Reference Obligation if, at the time of the determination, such obligation has already been rejected as the Substitute Reference Obligation by the relevant Credit Derivatives Determinations Committee and such obligation has not changed materially since the date of the relevant DC Resolution.
- (b) If any of the events set forth under paragraphs (i) or (iii) of the definition of Substitution Event (as set out in section II. 3.3 (*Substitution Events with respect to a Non-Standard Reference Obligation*)) have occurred with respect to the Non-Standard Reference Obligation, the Non-Standard Reference Obligation will cease to be the Reference Obligation (other than for purposes of the "Not Subordinated" Obligation Characteristic or "Not Subordinated" Deliverable Obligation Characteristic and paragraph (c)(ii) of this definition of Substitute Reference Obligation).

If the event set forth in paragraph (ii) of the definition of Substitution Event (as set out in section II. 3.3 (*Substitution Events with respect to a Non-Standard Reference Obligation*)) has occurred with respect to the Non-Standard Reference Obligation and no Substitute Reference Obligation is available, the Non-Standard Reference Obligation will continue to be the Reference Obligation until the Substitute Reference Obligation is identified or, if earlier, until any of the events set forth under paragraphs (i) or (iii) of the definition of Substitution Event (as set out in section II. 3.3 (*Substitution Events with respect to a Non-Standard Reference Obligation*)) occur with respect to such Non-Standard Reference Obligation.

- (c) The Substitute Reference Obligation shall be an obligation that on the Substitution Date:
  - (i) is a Borrowed Money obligation of the relevant Reference Entity (either directly or as provider of a guarantee);
  - (ii) satisfies the Not Subordinated Deliverable Obligation Characteristic as of the date it was issued or incurred (without reflecting any change to the priority of payment after such date) and on the Substitution Date; and
  - (iii) (A) if the Non-Standard Reference Obligation was a Conforming Reference Obligation when issued or incurred and immediately prior to the Substitution Event Date:
    - (I) is a Deliverable Obligation (other than a Loan) determined in accordance with paragraph (a) of the definition of Deliverable Obligation; or if no such obligation is available,



- (II) is a Loan (other than a Private-side Loan) which constitutes a Deliverable Obligation determined in accordance with paragraph (a) of the definition of Deliverable Obligation;
- (B) if the Non-Standard Reference Obligation was a Bond (or any other Borrowed Money obligation other than a Loan) which was a Non-Conforming Reference Obligation when issued or incurred and/or immediately prior to the Substitution Event Date:
  - (I) is a Non-Conforming Substitute Reference Obligation (other than a Loan); or if no such obligation is available,
  - (II) is a Deliverable Obligation (other than a Loan) determined in accordance with paragraph (a) of the definition of Deliverable Obligation; or if no such obligation is available,
  - (III) is a Non-Conforming Substitute Reference Obligation which is a Loan (other than a Private-side Loan); or if no such obligation is available,
  - (IV) is a Loan (other than a Private-side Loan) which constitutes a Deliverable Obligation determined in accordance with paragraph (a) of the definition of Deliverable Obligation; or
- (C) if the Non-Standard Reference Obligation was a Loan which was a Non-Conforming Reference Obligation when incurred and/or immediately prior to the Substitution Event Date:
  - (I) is a Non-Conforming Substitute Reference Obligation which is a Loan (other than a Private-side Loan); or if no such obligation is available,
  - (II) is a Non-Conforming Substitute Reference Obligation (other than a Loan); or if no such obligation is available,
  - (III) is a Deliverable Obligation (other than a Loan) determined in accordance with paragraph (a) of the definition of Deliverable Obligation; or if no such obligation is available,
  - (IV) is a Loan (other than a Private-side Loan) which constitutes a Deliverable Obligation determined in accordance with paragraph (a) of the definition of Deliverable Obligation.
- (d) If more than one potential Substitute Reference Obligation is identified pursuant to the process described in paragraph (c) of this definition of Substitute Reference Obligation, the Substitute Reference Obligation will be the potential Substitute Reference Obligation that most closely preserves the economic equivalent of the delivery and payment obligations of the Issuer in respect of the Notes, as determined by the Calculation Agent (in its sole and absolute discretion). The Calculation Agent will notify the Issuer and the Noteholders of the Substitute Reference Obligation as soon as reasonably practicable after it has been identified in accordance with paragraph (c) of this definition of Substitute Reference Obligation and the Substitute Reference Obligation shall replace the Non-Standard Reference Obligation immediately upon such notification.
- (e) If a Substitution Event has occurred with respect to the Non-Standard Reference Obligation and the Calculation Agent determines that no Substitute Reference Obligation is available for the Non-Standard Reference Obligation, then, subject to paragraph (a) of this definition of Substitute Reference Obligation and

notwithstanding the fact that the Non-Standard Reference Obligation may have ceased to be the Reference Obligation in accordance with paragraph (b) of this definition of Substitute Reference Obligation, the Calculation Agent shall continue to attempt to identify the Substitute Reference Obligation.

**"Substitution Date"** means, with respect to a Substitute Reference Obligation, the date on which the Calculation Agent has identified the Substitute Reference Obligation in accordance with the definition of Substitute Reference Obligation.

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

**"Substitution Event Date"** means, with respect to the Reference Obligation, the date of the occurrence of the relevant Substitution Event.

**"succeed"** means with respect to a Reference Entity and its Relevant Obligations, that an entity other than such Reference Entity (i) assumes or becomes liable for such Relevant Obligations whether by operation of law or pursuant to any agreement (including, with respect to a Reference Entity that is a Sovereign, any protocol, treaty, convention, accord, concord, entente, pact or other agreement), or (ii) issues Bonds or incurs Loans (the **"Exchange Bonds or Loans"**) that are exchanged for Relevant Obligations, and in either case the relevant Reference Entity is not thereafter a direct obligor or a provider of a Relevant Guarantee with respect to such Relevant Obligations (or such Exchange Bonds or Loans, as applicable). For purposes of the definition of Successor, **"succeeded"** and **"succession"** shall be construed accordingly.

**"Succession Date"** means the legally effective date of an event in which one or more entities succeed to some or all of the Relevant Obligations of the relevant Reference Entity; provided that if at such time, there is a Steps Plan, the Succession Date will be the legally effective date of the final succession in respect of such Steps Plan, or if earlier (i) the date on which a determination pursuant to paragraph (a) of the definition of Successor would not be affected by any further related successions in respect of such Steps Plan, or (ii) the occurrence of a Credit Event in respect of the relevant Reference Entity or any entity which would constitute a Successor.

**"Successor"** means in relation to a Reference Entity:

- (a) subject to paragraph (b) below, the entity or entities, if any, determined as follows:
  - (i) subject to clause (a)(vii) below, if one entity succeeds, either directly or as a provider of a Relevant Guarantee to 75% or more of the Relevant Obligations of the relevant Reference Entity, that entity will be the sole Successor;
  - (ii) if only one entity succeeds, either directly or as a provider of a Relevant Guarantee, to more than 25% (but less than 75%) of the Relevant Obligations of the relevant Reference Entity, and not more than 25% of the Relevant Obligations of such Reference Entity remain with such 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 succeeds, either directly or as a provider of a Relevant Guarantee, to more than 25% of the Relevant Obligations of the relevant Reference Entity, and not more than 25% of the Relevant Obligations of such Reference Entity remain with such 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 II. 3.2 (Multiple Successors);
  - (iv) if one or more entities each succeeds, either directly or as a provider of a Relevant Guarantee, to more than 25% of the Relevant Obligations of the relevant Reference Entity and more than 25% of the Relevant Obligations of such Reference Entity remain with such Reference Entity, each such

entity and such Reference Entity will each be a Successor, and the Notes will be amended as described below;

- (v) if one or more entities succeed, either directly or as a provider of a Relevant Guarantee, to a portion of the Relevant Obligations of the relevant Reference Entity, but no entity succeeds to more than 25% of the Relevant Obligations of such Reference Entity and such Reference Entity continues to exist, there will be no Successor and such Reference Entity and the Notes will not be changed in any way as a result of such succession;
  - (vi) if one or more entities succeed, either directly or as a provider of a Relevant Guarantee, to a portion of the Relevant Obligations of the relevant Reference Entity, but no entity succeeds to more than 25% of the Relevant Obligations of such Reference Entity and such Reference Entity ceases to exist, the entity which succeeds to the greatest percentage of Relevant Obligations will be the Successor (provided that if two or more entities succeed to an equal percentage of Relevant Obligations each such entity, will be a Successor, and the Notes will be amended as described in section II. 3.2 (Multiple Successors)); and
  - (vii) in respect of a Reference Entity which is not a Sovereign, if one entity assumes all of the obligations (including at least one Relevant Obligation) of the relevant Reference Entity, and at the time of the determination either (A) such Reference Entity has ceased to exist, or (B) such Reference Entity is in the process of being dissolved (howsoever described) and the Reference Entity has not issued or incurred any Borrowed Money obligation at any time since the legally effective date of the assumption, such entity (the "**Universal Successor**") will be the sole Successor.
- (b) An entity may only be a Successor if:
- (i) either (A) the related Succession Date occurs on or after the Successor Backstop Date, or (B) such entity is a Universal Successor in respect of which the Succession Date occurred on or after 1 January 2014;
  - (ii) the relevant Reference Entity had at least one Relevant Obligation outstanding immediately prior to the Succession Date and such entity succeeds to all or part of at least one Relevant Obligation of such Reference Entity; and
  - (iii) where the relevant Reference Entity is a Sovereign, such entity succeeded to the Relevant Obligations by way of a Sovereign Succession Event.
- (c) In the case of an exchange offer, the determination required pursuant to paragraph (a) of this definition of Successor shall be made on the basis of the Outstanding Principal Balance of Relevant Obligations exchanged and not on the basis of the Outstanding Principal Balance of the Exchange Bonds or Loans (as defined in the definition of "succeed" in section IV. (Definitions)).
- (d) If two or more entities (each, a "**Joint Potential Successor**") jointly succeed to a Relevant Obligation (the "**Joint Relevant Obligation**") either directly or as a provider of a Relevant Guarantee, then (i) if the Joint Relevant Obligation was a direct obligation of the relevant Reference Entity, it shall be treated as having been succeeded to by the Joint Potential Successor (or Joint Potential Successors, in equal parts) which succeeded to such Joint Relevant Obligation as direct obligor or obligors, or (ii) if the Joint Relevant Obligation was a Relevant Guarantee, it shall be treated as having been succeeded to by the Joint Potential Successor (or Joint Potential Successors, in equal parts) which succeeded to such Joint Relevant Obligation as guarantor or guarantors, if any, or otherwise by each Joint Potential Successor in equal parts.

**"Successor Backstop Date"** means for purposes of any Successor determination determined by DC Resolution, the date that is 90 calendar days prior to the Successor Resolution Request Date otherwise, the date that is 90 calendar days prior to the earlier of (i) the date on which the Successor Notice is effective and (ii) in circumstances where (A) a Successor Resolution Request Date has occurred, (B) the relevant Credit Derivatives Determinations Committee has Resolved not to make a Successor determination and (C) the Successor Notice is delivered by the Issuer not more than fourteen calendar days after the day on which the DC Secretary publicly announces that the relevant Credit Derivatives Determinations Committee has Resolved not to make a Successor determination, the Successor Resolution Request Date. The Successor Backstop Date shall not be subject to adjustment in accordance with any Business Day Convention.

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

**"Successor Resolution Request Date"** means, with respect to a notice to the DC Secretary requesting that a Credit Derivatives Determinations Committee be convened to Resolve one or more Successors to a Reference Entity, the date, as publicly announced by the DC Secretary, that the relevant Credit Derivatives Determinations Committee Resolves to be the date on which such notice is effective.

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

**"Supranational Organisation"** means any entity or organisation established by treaty or other arrangement between 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 TARGET2 (the Trans-European Automated Real-time Gross settlement Express Transfer system 2) 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 Auction Settlement Terms"** means the relevant Credit Derivatives Auction Settlement Terms as determined by the Calculation Agent in its sole and absolute discretion, whether or not the Notes are covered by such Credit Derivatives Auction Settlement 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); (B) restrictions on permitted investments such as statutory or regulatory investment restrictions on insurance companies and pension funds; or (C) restrictions in respect of blocked periods on or around payment dates or voting periods.

"**Underlying Obligor**" means with respect to an Underlying Obligation, the issuer in the case of a Bond, the borrower in the case of a Loan, or the principal obligor in the case of any other Underlying Obligation.

"**Underlying Obligation**" means, with respect to a guarantee, the obligation which is the subject of the 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 occurrence of a DC Credit Event Announcement with respect to such Credit Event or (b) if neither a DC Credit Event Announcement nor a DC No Credit Event Announcement has occurred with respect to such Credit Event, the date the Issuer gave a Credit Event Notice to the Noteholders to (and including) the 10<sup>th</sup> 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, Governmental Intervention, 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, 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 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**

Noteholders of Basket 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 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 or Sovereign 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 the 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 the 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 following a public announcement by the DC Secretary, the Calculation Agent determines 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 following a public announcement by the DC Secretary, the Calculation Agent determines 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) a DC Credit Event Question Dismissal has occurred with respect to a Reference Entity; (b) a DC Credit Event Question Dismissal has not occurred and there has been neither a DC Credit Event Announcement nor a DC No Credit Event Announcement with respect to such Reference Entity; or (c) the relevant event is solely an M(M)R 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 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, 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 either a DC No Credit Event Announcement occurs, or the Calculation Agent otherwise determines that no Credit Event has occurred, with respect to the Potential Credit Event. 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, 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 a DC No Credit Event Announcement has 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, 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, 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 Determination of Successor(s)**

Potential Noteholders should note that the Reference Entity or Reference Entities, as applicable, may change from time to time if one or more Successors are determined with respect to such Reference Entity or Reference Entities and, if more than one Successor Reference Entity is determined, 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 any Successor(s); provided that the Calculation Agent will not make such determination if, at such time, ISDA has publicly announced that there is no Successor.

If Successor(s) are determined, this 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 by the then relevant Standard Reference Obligation and/or, if a Non-Standard Reference Obligation has been specified in the relevant Final Terms, by a Substitute Reference Obligation. 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 Successor(s) 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 2014 ISDA Credit Derivatives Definitions or any other definitions published by ISDA or any supplements to any such definitions ("**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; and/or (c) 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*),

and 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 (*Bankenkongurs*) 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 Bank for International Settlements 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 Cost 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: Description of UBS AG



## **Description of UBS AG**

# Table of Contents

<b>1.</b>	<b>Overview .....</b>	<b>4</b>
<b>2.</b>	<b>Corporate Information .....</b>	<b>6</b>
<b>3.</b>	<b>Business Overview .....</b>	<b>7</b>
3.1	Organizational Structure of UBS AG .....	7
3.2	Business Divisions and Corporate Center .....	8
3.2.1	<i>Wealth Management</i> .....	8
3.2.2	<i>Wealth Management Americas</i> .....	8
3.2.3	Personal & Corporate Banking .....	8
3.2.4	<i>Asset Management</i> .....	9
3.2.5	<i>Investment Bank</i> .....	9
3.2.6	<i>Corporate Center</i> .....	9
3.3	Competition .....	9
3.4	Recent Developments .....	10
3.4.1	<i>UBS AG (consolidated) key figures</i> .....	10
3.4.2	<i>Key international regulatory and legal developments</i> .....	11
3.5	Trend Information .....	14
<b>4.</b>	<b>Administrative, Management and Supervisory Bodies of UBS AG .....</b>	<b>15</b>
4.1	Board of Directors .....	15
4.1.1	Members of the Board of Directors .....	15
4.1.2	Organizational principles and structure .....	16
4.1.3	Audit Committee .....	17
4.2	Executive Board .....	17
4.2.1	Members of the Executive Board .....	17
4.3	Potential Conflicts of Interest .....	18
<b>5.</b>	<b>Auditors .....</b>	<b>20</b>
<b>6.</b>	<b>Major Shareholders of UBS AG .....</b>	<b>21</b>
<b>7.</b>	<b>Financial Information concerning UBS AG's Assets and Liabilities, Financial Position and Profits and Losses .....</b>	<b>22</b>
7.1	Historical Annual Financial Information .....	22
7.2	Auditing of Historical Annual Financial Information .....	23
7.3	Incorporation by Reference .....	23
7.4	Litigation, Regulatory and Similar Matters .....	23
7.5	Material Contracts .....	36
7.6	Significant Changes in the Financial or Trading Position; Material Adverse Change in Prospects .....	36

<b>8.</b>	<b>Share Capital .....</b>	<b>37</b>
<b>9.</b>	<b>Dividends.....</b>	<b>38</b>
<b>10.</b>	<b>Documents on Display.....</b>	<b>39</b>

## 1. Overview

UBS AG with its subsidiaries (together, "UBS AG (consolidated)", or "UBS AG Group"; together with UBS Group AG, which is the holding company of UBS AG, and its subsidiaries, "UBS Group", "Group", "UBS" or "UBS Group AG (consolidated)") provides financial advice and solutions to private, institutional and corporate clients worldwide, as well as private clients in Switzerland. The operational structure of the Group is comprised of the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank. UBS's strategy is centered on its leading wealth management businesses and its premier universal bank in Switzerland, which are enhanced by Asset Management and the Investment Bank. UBS focuses on businesses that, in its opinion, have a strong competitive position in their targeted markets, are capital efficient, and have an attractive long-term structural growth or profitability outlook.

On 31 December 2016, UBS Group's common equity tier 1 ("CET1") capital ratio was 13.8% on a fully applied basis and 16.8% on a phase-in basis, invested assets stood at CHF 2,821 billion, equity attributable to UBS Group AG shareholders was CHF 53,621 million and market capitalization was CHF 61,420 million. On the same date, UBS employed 59,387 people .

On 31 December 2016, UBS AG (consolidated) CET1 capital ratio<sup>1</sup> was 14.5% on a fully applied basis and 17.5% on a phase-in basis, invested assets stood at CHF 2,821 billion and equity attributable to UBS AG shareholders was CHF 53,662 million. On the same date, UBS AG Group employed 56,208 people<sup>2</sup>.

The rating agencies Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"), Moody's Investors Service Ltd. ("Moody's"), Fitch Ratings Limited ("Fitch Ratings"), and Scope Ratings AG ("Scope Ratings ") have published solicited credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to fulfil 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, Standard & Poor's and Scope Ratings 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 a long-term counterparty credit rating of A+ (outlook: stable) from Standard & Poor's, long-term senior debt rating of A1 (outlook: stable) from Moody's, long-term issuer default rating of A+ (outlook: stable) from Fitch Ratings and issuer credit-strength rating of A+ (outlook: positive) from Scope Ratings.

An explanation of the significance of ratings may be obtained from the rating agencies. Generally, rating agencies base their ratings on such material and information, and such of their own investigations, studies and assumptions, as they deem appropriate. The ratings of UBS AG should be evaluated independently from similar ratings of other entities, and from the rating, if any, of its securities. A credit rating is not a recommendation to buy, sell or hold securities issued or

---

<sup>1</sup> Based on the Basel III framework as applicable to Swiss systemically relevant banks. The common equity tier 1 capital ratio is the ratio of common equity tier 1 capital to risk-weighted assets. The Basel III framework includes prudential filters for the calculation of capital. As these filters are being phased in between 2014 and 2018, their effects are gradually factored into the calculations of capital, RWA and capital ratios on a phase-in basis and are entirely reflected in the capital, RWA and capital ratios on a fully applied basis. For information as to how UBS Group AG (consolidated) and UBS AG (consolidated) common equity tier 1 capital is calculated, refer to the table "Reconciliation IFRS equity to Swiss SRB common equity tier 1 capital" in the sections "Capital management" and "UBS AG (consolidated) capital and leverage ratio information, respectively of the Annual Report 2016, as defined herein.

<sup>2</sup> Full-time equivalents.

guaranteed by the rated entity and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency. All the above-mentioned rating agencies are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011.

No profit forecasts or estimates are included in this document.

No recent events particular to UBS AG have occurred, which are to a material extent relevant to the evaluation of UBS AG's solvency.

Any statements regarding the competitive position of UBS AG, UBS AG Group or the Group contained in this document are made on the basis of the opinion of UBS AG or the Group.

## 2. Corporate Information

The legal and commercial name of the company is UBS AG.

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 CHE-101.329.561.

UBS AG is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations as an *Aktiengesellschaft*, a corporation limited by shares.

According to article 2 of the articles of association of UBS AG dated 4 May 2016 ("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. UBS AG may establish branches and representative offices as well as banks, finance companies and other enterprises of any kind in Switzerland and abroad, hold equity interests in these companies, and conduct their management. UBS AG is authorized to acquire, mortgage and sell real estate and building rights in Switzerland and abroad. UBS AG may borrow and invest money on the capital markets. UBS AG is part of the group of companies controlled by the group parent company UBS Group AG. It may promote the interests of the group parent company or other group companies. It may provide loans, guarantees and other kinds of financing and security for group companies.

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.



## 3. Business Overview

### 3.1 Organizational Structure of UBS AG

UBS AG is a Swiss bank and the parent company of the UBS AG Group. It is 100% owned by UBS Group AG, which is the holding company of the UBS Group. UBS operates as a group with five business divisions (Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank) and a Corporate Center.

Since 2014, UBS has undertaken a series of measures to improve the resolvability of the Group in response to too big to fail requirements in Switzerland and other countries in which the Group operates.

In December 2014, UBS Group AG completed an exchange offer for the shares of UBS AG and became the holding company of the UBS Group. During 2015, UBS Group AG completed a court procedure under the Swiss Stock Exchange and Securities Trading Act resulting in the cancellation of the shares of the remaining minority shareholders of UBS AG. As a result, UBS Group AG owns 100% of the outstanding shares of UBS AG.

In June 2015, UBS AG transferred its Personal & Corporate Banking and Wealth Management businesses booked in Switzerland to UBS Switzerland AG, a banking subsidiary of UBS AG in Switzerland. Also in 2015, UBS implemented a more self-sufficient business and operating model for UBS Limited, UBS's investment banking subsidiary in the UK, and established UBS Business Solutions AG as a direct subsidiary of UBS Group AG to act as the Group service company. The purpose of the service company structure is to improve the resolvability of the Group by enabling UBS to maintain operational continuity of critical services should a recovery or resolution event occur.

In the second half of 2015, UBS transferred the ownership of the majority of its existing service subsidiaries outside the US to UBS Business Solutions AG, and expects to transfer shared services functions in Switzerland and the UK from UBS AG to this entity during 2017. As of 1 January 2017, UBS completed the transfer of the shared service employees in the US to the US service company, UBS Business Solutions US LLC, a subsidiary of UBS AG.

As of 1 July 2016, UBS Americas Holding LLC was designated as intermediate holding company for UBS's US subsidiaries as required under the enhanced prudential standards regulations pursuant to the Dodd-Frank Act. UBS Americas Holding LLC holds all of UBS's US subsidiaries and is subject to US capital requirements, governance requirements and other prudential regulation.

In addition, UBS transferred the majority of the operating subsidiaries of Asset Management to UBS Asset Management AG during 2016. Furthermore, UBS merged its Wealth Management subsidiaries in Italy, Luxembourg (including its branches in Austria, Denmark and Sweden), the Netherlands and Spain into UBS Deutschland AG, which was renamed to UBS Europe SE, to establish UBS's new European legal entity which is headquartered in Frankfurt, Germany.

UBS continues to consider further changes to the Group's legal structure in response to regulatory requirements and other external developments, including the anticipated exit of the United Kingdom from the European Union. Such changes may include the transfer of operating subsidiaries of UBS AG to become direct subsidiaries of UBS Group AG, further consolidation of operating subsidiaries in the EU and adjustments to the booking entity or location of products and services. These structural changes are being discussed on an ongoing basis with FINMA and other regulatory authorities and remain subject to a number of uncertainties that may affect their feasibility, scope or timing.

UBS Group AG's interests in subsidiaries and other entities as of 31 December 2016, including interests in significant subsidiaries, are discussed in "Note 28 Interests in subsidiaries and other entities" to the UBS Group AG's consolidated financial statements included in the UBS Group AG and UBS AG Annual Report 2016 ("Annual Report 2016").

UBS AG's interests in subsidiaries and other entities as of 31 December 2016, including interests in significant subsidiaries, are discussed in "Note 28 Interests in subsidiaries and other entities" to the UBS AG's consolidated financial statements included in the Annual Report 2016.

UBS AG is the parent company of, and conducts a significant portion of its operations through, subsidiaries. As such, to a certain extent, it is dependent on certain of its subsidiaries.

## **3.2 Business Divisions and Corporate Center**

UBS operates as a group with five business divisions (Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management, and the Investment Bank) 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 under "Our strategy" in the "Operating environment and strategy" section of the Annual Report 2016; a description of the businesses, strategies, clients, organisational structures, products and services of the business divisions and the Corporate Center can also be found in the "Operating environment and strategy" section of the Annual Report 2016.

### *3.2.1 Wealth Management*

Wealth Management provides comprehensive advice and tailored financial services to wealthy private clients around the world, except those served by Wealth Management Americas. Its clients benefit from the full spectrum of resources that UBS as a global firm can offer, including banking and lending solutions, wealth planning, investment management solutions, and corporate finance advice. Wealth Management's guided architecture model gives clients access to a wide range of products from the world's leading third-party institutions that complement its own products.

### *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 their clients. Its business is primarily domestic US but includes Canada and international business booked in the US.

### *3.2.3 Personal & Corporate Banking*

Personal & Corporate Banking provides comprehensive financial products and services to private, corporate and institutional clients in Switzerland and is among the leading players in the private and corporate loan market in Switzerland, with a well-collateralized and conservatively managed lending portfolio. Its business is a central element of UBS's universal bank delivery model in Switzerland. Personal & Corporate Banking works with the wealth management, investment bank and asset management businesses to ensure that clients receive the best products and solutions for their specific financial needs. Personal & Corporate Banking is also an important source of growth for other business divisions in Switzerland through client referrals. In addition, Personal & Corporate Banking manages a substantial part of UBS's Swiss infrastructure and banking products platform, both of which are leveraged across the Group.

### 3.2.4 *Asset Management*

Asset Management provides investment management products and services, platform solutions and advisory support to institutions, wholesale intermediaries and wealth management clients around the world, with an onshore presence in 22 countries. It is a leading fund house in Europe, the largest mutual fund manager in Switzerland, and one of the largest fund of hedge funds and real estate investment managers in the world. Its global investment capabilities include all major traditional and alternative asset classes.

### 3.2.5 *Investment Bank*

The Investment Bank is present in over 35 countries, with principal offices in all major financial centres, providing investment advice, financial solutions and capital markets access. It serves corporate, institutional and wealth management clients across the globe and forms a synergetic partnership with UBS's wealth management, personal and corporate banking and asset management businesses. The business division is organized into Corporate Client Solutions and Investor Client Services, and also includes UBS Securities Research.

### 3.2.6 *Corporate Center*

Corporate Center is comprised of Services, Group Asset and Liability Management ("Group ALM") and Non-core and Legacy Portfolio. Services consists of the Group Chief Operating Officer area (Group Corporate Services, Group Operations, Group Sourcing, Group Technology), Group Finance, Group Legal, Group Human Resources, Group Risk Control, Group Communications and Branding, Group Regulatory and Governance, and UBS and Society. Group ALM manages the structural risks of UBS's balance sheet, including interest rate risk in the banking book, currency risk and collateral risk, as well as the risks associated with the Group's liquidity and funding portfolios. Group ALM also seeks to optimize the Group's financial performance by better matching assets and liabilities within the context of the Group's liquidity, funding and capital targets. Group ALM serves all business divisions and other Corporate Center units through three main risk management areas, and its risk management is fully integrated into the Group's risk governance framework. Non-core and Legacy Portfolio is comprised of the positions from businesses that were part of the Investment Bank prior to its restructuring and is overseen by a committee chaired by the Group Chief Risk Officer.

## **3.3 Competition**

The financial services industry is characterized by intense competition, continuous innovation, restrictive, 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

#### 3.4.1 UBS AG (consolidated) key figures

#### Selected consolidated financial information

UBS AG derived the selected consolidated financial information included in the table below, except where indicated, from the Annual Report 2016, which contains the audited consolidated financial statements of UBS AG, as well as additional unaudited consolidated financial information, for the year ended 31 December 2016 and comparative figures for the years ended 31 December 2015 and 2014.

The consolidated financial statements for the years ended on 31 December 2016, 31 December 2015 and 31 December 2014 were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and are stated in Swiss francs ("CHF").

Information for the years ended 31 December 2016, 2015 and 2014 which is indicated as being unaudited in the table below was included in the Annual Report 2016, but has not been audited on the basis that the respective disclosures are not required under IFRS, and therefore are not part of the audited financial statements. The Annual Report 2016 is incorporated by reference herein. The section "Measurement of performance" of the Annual Report 2016 contains an explanation of the use by UBS Group AG of the information contained under the heading "Key performance indicators" in the table below and the definitions of each of these key performance indicators. Prospective investors should read the whole of this Prospectus and the documents incorporated by reference herein and should not rely solely on the summarized information set out below:

<i>CHF million, except where indicated</i>	As of or for the year ended		
	31.12.16	31.12.15	31.12.14
	<i>audited, except where indicated</i>		
<b>Group results</b>			
Operating income	28,421	30,605	28,026
Operating expenses	24,352	25,198	25,557
Operating profit / (loss) before tax	4,069	5,407	2,469
Net profit / (loss) attributable to shareholders	3,207	6,235	3,502
<b>Key performance indicators</b>			
<b>Profitability</b>			
Return on tangible equity (%) <sup>1</sup>	6.9*	13.5*	8.2*
Return on assets, gross (%) <sup>2</sup>	3.0*	3.1*	2.8*
Cost / income ratio (%) <sup>3</sup>	85.6*	82.0*	90.9*
<b>Growth</b>			
Net profit growth (%) <sup>4</sup>	(48.6)*	78.0*	10.4*
Net new money growth for combined wealth management businesses (%) <sup>5</sup>	2.1*	2.2*	2.5*
<b>Resources<sup>6</sup></b>			
Common equity tier 1 capital ratio (fully applied, %) <sup>7,8</sup>	14.5*	15.4*	14.2*
Going concern leverage ratio (phase-in, %) <sup>9,10</sup>	5.8*	-	-
<b>Additional information</b>			
<b>Profitability</b>			
Return on equity (RoE) (%) <sup>11</sup>	5.9*	11.7*	7.0*
Return on risk-weighted assets, gross (%) <sup>12</sup>	13.2*	14.3*	12.6*
<b>Resources<sup>6</sup></b>			
Total assets	935,353	943,256	1,062,327
Equity attributable to shareholders	53,662	55,248	52,108
Common equity tier 1 capital (fully applied) <sup>8</sup>	32,447	32,042	30,805

Common equity tier 1 capital (phase-in) <sup>8</sup>	39,474	41,516	44,090
Risk-weighted assets (fully applied) <sup>8</sup>	223,232*	208,186*	217,158*
Common equity tier 1 capital ratio (phase-in, %) <sup>7,8</sup>	17.5*	19.5*	19.9*
Going concern capital ratio (fully applied, %) <sup>10</sup>	16.3*	-	-
Going concern capital ratio (phase-in, %) <sup>10</sup>	22.6*	-	-
Common equity tier 1 leverage ratio (fully applied, %) <sup>13</sup>	3.7*	3.6*	3.1*
Going concern leverage ratio (fully applied, %) <sup>9,10</sup>	4.2*	-	-
Leverage ratio denominator (fully applied) <sup>13</sup>	870,942*	898,251*	999,124*
<b>Other</b>			
Invested assets (CHF billion) <sup>14</sup>	2,821	2,689	2,734
Personnel (full-time equivalents)	56,208*	58,131*	60,155*

\* unaudited

<sup>1</sup> Net profit attributable to shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable) / average equity attributable to shareholders less average goodwill and intangible assets.

<sup>2</sup> Operating income before credit loss (expense) or recovery (annualized as applicable) / average total assets.

<sup>3</sup> Operating expenses / operating income before credit loss (expense) or recovery.

<sup>4</sup> Change in net profit attributable to shareholders from continuing operations between current and comparison periods / net profit attributable to shareholders from continuing operations of comparison period. Not meaningful and not included if either the reporting period or the comparison period is a loss period.

<sup>5</sup> Net new money growth for combined wealth management businesses is calculated as the aggregate of the net new money for the period (annualized as applicable) of the business divisions Wealth Management and Wealth Management Americas / aggregate invested assets at the beginning of the period of the business divisions Wealth Management and Wealth Management Americas. Net new money and invested assets are each derived from the "Wealth Management" and "Wealth Management Americas" sections of the management report contained in the Annual Report 2016, under "Financial and operating performance". Net new money growth for combined wealth management businesses is based on adjusted net new money, which excludes the negative effect on net new money in 2015 of CHF 9.9 billion in Wealth Management from UBS's balance sheet and capital optimization program.

<sup>6</sup> Subsequent to the publication of the fourth quarter 2016 report, the Annual General Meeting of shareholders of UBS AG approved the distribution of a CHF 2,250 million dividend from UBS AG to UBS Group AG, which was higher than the previously estimated amount. This, in combination with the adjusting event after the reporting period described in "Note 35 Events after the reporting period" to the UBS AG's consolidated financial statements included in the Annual Report 2016, resulted in a reduction of CET1 capital (CHF 607 million on a fully applied basis and CHF 585 million on a phase-in basis), a reduction in the leverage ratio denominator (CHF 45 million on a fully applied basis and CHF 27 million on a phase-in basis) and respective capital ratios of UBS AG consolidated as of 31 December 2016.

<sup>7</sup> Common equity tier 1 capital / risk-weighted assets.

<sup>8</sup> Based on the Basel III framework as applicable for Swiss systemically relevant banks.

<sup>9</sup> Total going concern capital / leverage ratio denominator.

<sup>10</sup> Based on the revised Swiss SRB framework that became effective on 1 July 2016. Figures for prior periods are not available.

<sup>11</sup> Net profit attributable to shareholders (annualized as applicable) / average equity attributable to shareholders.

<sup>12</sup> Based on fully applied risk-weighted assets for all periods presented. This consolidated financial information was derived from the Annual Report 2016. Figures as of 31 December 2015 and 31 December 2014 do not correspond to the figures contained in the Annual Report 2015 or the Annual Report 2014, which were based on phase-in risk-weighted assets.

<sup>13</sup> Calculated in accordance with Swiss SRB rules. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable.

<sup>14</sup> Includes invested assets for Personal & Corporate Banking.

### 3.4.2 Key international regulatory and legal developments

#### Revisions of BCBS capital framework and ongoing consultations

*Proposed revisions to the Pillar 1 requirements:* The Basel Committee on Banking Supervision ("BCBS") is currently finalising a comprehensive reform package for the Basel III capital framework, the elements of which have been proposed in a series of separate consultation papers. High-level guidance on the revisions issued by the BCBS in November 2016 included: (i) the revised standardized approach to credit risk will be more risk-sensitive and more consistent with banks' internal model-based approaches, which are subject to approval by the home country regulator; (ii) a revised standardized approach for operational risk will replace the existing approaches, including the advanced measurement approach, which is based on banks' internal models and also subject to

approval by the home country regulator; and (iii) a leverage ratio surcharge for global systemically important banks ("G-SIBs") will be introduced. In addition, an aggregate output floor, in relation to the level of capital required, is expected to be part of the reform package. Final rules, which were expected to be issued in January 2017, have been delayed. UBS expects that if the proposals are adopted in their current form and implemented in Switzerland, the proposed changes to the capital framework will likely result in a significant increase in UBS's overall RWA without considering the effect of mitigating measures.

*Revisions to the Pillar 2 requirements:* In April 2016, the BCBS revised its 2004 principles for the management and supervision of interest rate risk. The revised standards include guidance on the development of interest rate shock scenarios, enhanced quantitative disclosure requirements as well as an updated standardised framework, which banks could be mandated to follow. The impact of these revisions can only be determined once its implementation in national prudential regulations becomes clearer.

*Revisions to the Pillar 3 requirements:* FINMA has revised its Pillar 3 disclosure requirements to reflect changes to the BCBS Pillar 3 standards. Requirements relating to the 2015 BCBS revisions became effective for Swiss banking institutions on 31 December 2016 with additional requirements to be implemented during 2017. Further revisions to the Pillar 3 framework are expected as part of the finalisation of the Basel III capital framework.

*Consultation on regulatory capital treatment of accounting provisions:* In October 2016, the BCBS issued a consultative document and a discussion paper on the Basel III regulatory capital treatment of accounting provisions following the publication of IFRS 9, *Financial Instruments*, issued by the International Accounting Standards Board, and the Current Expected Credit Loss model, issued by the US Financial Accounting Standards Board. The new rules require the use of expected credit loss models as opposed to the currently applied incurred credit loss impairment approach under IFRS and US GAAP. UBS will adopt the IFRS 9 requirements on 1 January 2018. The BCBS consultative document proposes to retain for an interim period the current regulatory treatment of accounting provisions. This would result in the impact of IFRS 9 on common equity tier 1 capital to be limited to the excess of expected credit losses over the current regulatory expected losses for banks applying the internal ratings-based approach. The BCBS also considers the adoption of transitional arrangements to phase in this impact. The BCBS discussion paper sets out longer-term options that include retaining the current regulatory treatment and introducing an expected credit loss component to the standardized regulatory approach. The consultation period ended in January 2017.

#### *Developments on TLAC and MREL requirements*

Following the publication of the Financial Stability Board's ("FSB") international TLAC standard in November 2015, a number of major jurisdictions issued TLAC requirements during 2016.

Switzerland was the first jurisdiction to implement TLAC requirements as part of the revision of the Swiss Capital Adequacy Ordinance that became effective on 1 July 2016. Subject to a limited reduction of the gone concern requirement based on improvements to the resolvability of the firm, the TLAC requirements applicable to UBS as of 1 January 2020 are 28.6% of RWA (excluding countercyclical buffer requirements) and 10% of the LRD. The revised Capital Adequacy Ordinance requires that TLAC-eligible instruments be issued out of a holding company, which would increase the overall tax burden for the Group under the current Swiss tax law. The Swiss Federal Council has requested the Federal Tax Administration to propose amendments to the Swiss tax law in order to address this issue.

In November 2016, the Bank of England published the final UK Minimum Requirement for own Funds and Eligible Liabilities ("MREL") rules, including minimum standards for domestic systemically important banks ("D-SIBs") in the UK, such as UBS Limited. Starting as of 1 January 2020, D-SIBs will

have to meet MREL requirements amounting to the greater of (i) a multiple, initially less than two and increasing to two as of 1 January 2022, of the Pillar 1 requirement of 8% and an institution-specific add-on, or (ii) if subject to a leverage ratio requirement, two times the applicable requirement of currently 3%.

Also in November 2016, the European Commission ("EC") published a proposal to integrate the FSB TLAC standard into the EU MREL regime. The EC proposes to apply MREL requirements to global systemically important institutions ("G-SIIs") calculated at 16% of RWA and 6% of the leverage exposure measure as of 1 January 2019, increasing to 18% and 6.75%, respectively, as of 1 January 2022. The proposal would also introduce internal MREL requirements for material subsidiaries of non-EU G-SIIs.

In December 2016, the Federal Reserve Board issued a final rule that will apply TLAC requirements, minimum long-term debt requirements and clean holding company requirements to all US G-SIBs and to foreign G-SIBs' US intermediate holding companies ("covered IHCs"), including UBS Americas Holding LLC. The final rule will require covered IHCs to maintain debt to the parent G-SIB qualifying as TLAC (internal TLAC) of at least the greatest of 16% of RWA, 6% of leverage exposure or 9% of average total consolidated assets, plus a buffer, including eligible long-term debt of at least the greatest of 6% of RWA, 2.5% of leverage exposure or 3.5% of average total consolidated assets. The final rule prohibits covered IHCs from having liabilities to unrelated third parties that exceed 5% of its total TLAC (clean holding company requirement) unless all of its TLAC is contractually subordinated to third-party liabilities. It further prohibits a covered IHC from incurring short-term debt, entering into derivatives with unaffiliated parties and issuing certain guarantees. The rule becomes effective as of 1 January 2019.

#### Implementation of margin requirements for non-cleared OTC derivatives

The G20 commitments on derivatives call for adoption of mandatory exchange of initial and variation margin for uncleared over-the-counter ("OTC") derivative transactions ("margin rules"). Margin rules for the largest counterparties (phase 1 counterparties) became effective in the US, Canada and Japan on 1 September 2016 and in the EU, Switzerland and major jurisdictions in Asia in the first quarter of 2017. Margin requirements for the next group of counterparties, including significant numbers of end users, have generally become effective in these jurisdictions on 1 March 2017. In recognition of the low level of industry and end-user readiness for these requirements, regulators in many of these jurisdictions have issued supervisory guidance or other relief intended to allow market participants to continue to transact while proceeding as quickly as practicable to implement the requirements. This relief is generally effective until September 2017. The non-cleared margin requirements will have a significant operational and funding impact on the OTC derivatives activities of UBS and many of its clients. The delays in the completion of rulemaking have affected its ability to complete the execution of required documentation and operational processes with counterparties ahead of relevant compliance dates, which may limit its and other dealers' ability to transact with clients until this is remedied.

Refer to "*Regulatory and legal developments*" in the "*Operating environment and strategy*" section of the Annual Report 2016 for information on further key regulatory and legal developments in Switzerland, in the EU and in the US.

### 3.5 Trend Information

As indicated in the UBS Group fourth quarter 2016 report, published on 27 January 2017, although macroeconomic uncertainty, geopolitical tensions and divisive politics continue to affect client sentiment and transaction volumes, UBS has begun to observe improved investor confidence, primarily in the US, which may benefit its wealth management businesses. Lower than expected and negative interest rates, particularly in Switzerland and the eurozone, continue to present headwinds to net interest margins, which may be offset by the effect of higher US dollar interest rates. Implementing Switzerland's new bank capital standards and the proposed further changes to the international regulatory framework for banks will result in increasing capital requirements and costs. UBS will continue to execute its strategy with discipline, positioning it to mitigate these challenges and to benefit from any further improvement in market conditions

Refer to "*Current market climate and industry trends*" in the "*Operating environment and strategy*" section of the Annual Report 2016 for more information.



## 4. Administrative, Management and Supervisory Bodies of UBS AG

UBS AG complies with all relevant Swiss legal and regulatory corporate governance requirements, as well as with the NYSE standards as a foreign company with debt securities listed on the NYSE.

UBS AG operates under a strict dual board structure, as mandated by Swiss banking law. The Board of Directors ("BoD") exercises the ultimate supervision over management, whereas the Executive Board ("EB"), headed by the President of the Executive Board ("President of the EB"), has executive management responsibility. The functions of Chairman of the BoD and President of the EB are assigned to two different people, ensuring a separation of power. This structure establishes checks and balances and preserves the institutional independence of the BoD from the day-to-day management of UBS AG, for which responsibility is delegated to the EB under the leadership of the President of the EB. No member of one board may simultaneously be a member of the other.

The supervision and control of the EB remains with the BoD. 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 five 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, which expires after completion of the next AGM. Shareholders also elect the Chairman upon proposal of the BoD.

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

#### 4.1.1 Members of the Board of Directors

Member and business address	Title	Term of office	Current principal positions outside UBS AG
Axel A. Weber  UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chairman	2017	Chairman of the Board of Directors of UBS Group AG; board member of the Swiss Bankers Association; member of the Board of Trustees of Avenir Suisse; Advisory Board member of the "Beirat Zukunft Finanzplatz"; board member of the Swiss Finance Council; Chairman of the board of the Institute of International Finance; President of the International Monetary Conference; member of the European Financial Services Round Table; member of the European Banking Group; member of the Monetary Economics and International Advisory Panel, Monetary Authority of Singapore; member of the Group of Thirty, Washington, D.C.; Chairman of the DIW Berlin Board of Trustees; Advisory Board member of the Department of Economics at the University of Zurich.
Michel Demaré  Syngenta International AG, Schwarzwaldallee 215, CH-4058 Basel	Independent Vice Chairman	2017	Independent Vice-Chairman of the board of directors of UBS Group AG; Chairman of the board of Syngenta; board member of Louis-Dreyfus Commodities Holdings BV; Vice Chairman of the Supervisory Board of IMD, Lausanne; Chairman of the Syngenta Foundation for Sustainable Agriculture; Advisory Board member of the Department of Banking and Finance at the University of Zurich.
David Sidwell  UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2017	Senior Independent Director of the board of directors of UBS Group AG; Senior Advisor at Oliver Wyman, New York; board member of Chubb Limited; board member of GAVI Alliance; Chairman of the Board of Village Care, New York; Director of the National Council on Aging, Washington D.C.

Reto Francioni UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2017	Member of the board of directors of UBS Group AG; professor, University of Basel; board member of Coca-Cola HBC AG; Chairman of the board of Swiss International Air Lines AG; board member of Francioni AG; board member of MedTech Innovation Partners AG.
Ann F. Godbehere UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2017	Member of the Board of Directors of UBS Group AG; board member of Prudential plc (chairman of the audit committee); board member of Rio Tinto plc (chairman of the audit committee); board member of Rio Tinto Limited (chairman of the audit committee); board member of British American Tobacco plc
William G. Parrett UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2017	Member of the Board of Directors of UBS Group AG; board member of the Eastman Kodak Company (chairman of the audit and finance committee); board member of the Blackstone Group LP (chairman of the audit committee and chairman of the conflicts committee); board member of Thermo Fisher Scientific Inc. (chairman of the audit committee); board member of Conduent Inc; member of the Committee on Capital Markets Regulation; member of the Carnegie Hall Board of Trustees; Past Chairman of the board of the United States Council for International Business; Past Chairman of United Way Worldwide.
Isabelle Romy Froriep Legal AG, Bellerivestrasse 201, CH-8034 Zurich	Member	2017	Member of the Board of Directors of UBS Group AG; partner at Froriep Legal AG, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; vice chairman of the Sanction Commission of SIX Swiss Exchange; member of the Fundraising Committee of the Swiss National Committee for UNICEF.
Robert W. Scully UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2017	Member of the Board of Directors of UBS Group AG; board member of Chubb Limited; board member of Zoetis Inc.; board member of KKR & Co LP; board member of the Dean's Advisors of Harvard Business School.
Beatrice Weder di Mauro Johannes Gutenberg- University Mainz, Jakob Welder-Weg 4, D-55099 Mainz	Member	2017	Member of the Board of Directors of UBS Group AG; distinguished fellow at INSEAD in Singapore (on leave from the University of Mainz); Supervisory Board member of Robert Bosch GmbH; board member of Bombardier Inc.; member of the ETH Zurich Foundation Board of Trustees; Economic Advisory Board member of Fraport AG; Advisory Board member of Deloitte Germany; Deputy Chairman of the University Council of the University of Mainz; member of the Senate of the Max Planck Society.
Dieter Wemmer Allianz SE, Königinstr. 28, 80802 Munich, Germany	Member	2017	Member of the Board of Directors of UBS Group AG; CFO at Allianz SE; Administrative Board member of Allianz Asset Management AG and Allianz Investment Management SE, both Allianz Group mandates; member of the CFO Forum; member of the Systemic Risk Working Group of the European Central Bank and the Bank for International Settlements; Chairman of the Economic & Finance Committee of Insurance Europe; member of the Berlin Center of Corporate Governance.
Joseph Yam UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2017	Member of the Board of Directors of UBS Group AG; Executive Vice President of the China Society for Finance and Banking; board member of Johnson Electric Holdings Limited; board member of UnionPay International Co., Ltd.; International Advisory Council member of China Investment Corporation; Distinguished Research Fellow at the Institute of Global Economics and Finance at the Chinese University of Hong Kong.

#### 4.1.2 Organizational principles and structure

Following each AGM, the BoD meets to appoint one or more Vice Chairmen, 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 and the Risk Committee. The BoD has also established a Special Committee, which is an ad-hoc committee, called and held on an ad-hoc basis, focused on internal and regulatory investigations.

### 4.1.3 Audit Committee

The Audit Committee ("AC") consists of five BoD members, all of whom were determined by the BoD to be fully independent. As a group, members of the Audit Committee must have the necessary qualifications and skills to perform all of their duties and together must possess financial literacy and experience in banking and risk management.

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 consolidated and standalone 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) UBS AG's accounting policies, financial reporting and disclosure controls and procedures, (ii) the quality, adequacy and scope of external audit, (iii) UBS AG'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 Internal Audit in conjunction with the Chairman of the BoD.

Together with the external auditors and Group Internal Audit, the AC in particular reviews the annual financial statements of UBS AG and, where applicable, the quarterly financial statements as well as the consolidated annual and quarterly financial statements and consolidated annual report of UBS AG, as proposed by management, in order to recommend their approval to the BoD or propose any adjustments the AC considers appropriate.

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 to the rotation of the lead audit partner. The BoD then submits these proposals to the shareholders 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 Executive Board

Under the leadership of the President of the EB, the EB has executive management responsibility for UBS AG and its business. All EB members (with the exception of the President of the EB) are proposed by the President of the EB. The appointments are made by the BoD.

### 4.2.1 Members of the Executive Board

Member and business address	Function	Current principal positions outside UBS AG
Sergio P. Ermotti  UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	President of the Executive Board	Member of the Group Executive Board and Group Chief Executive Officer of UBS Group AG; Chairman of the Board of Directors of UBS Switzerland AG; Chairman of the Board of Directors of UBS Business Solutions AG; Chairman of the UBS Optimus Foundation board; Chairman of the Fondazione Ermotti, Lugano; Chairman and President of the board of the Swiss-American Chamber of Commerce; board member of the Fondazione Lugano per il Polo Culturale, Lugano; board member of the Global Apprenticeship Network; member of the Institut International D'Etudes Bancaires.

Christian Bluhm UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Risk Officer	Member of the Group Executive Board and Group Chief Risk Officer of UBS Group AG; board member of UBS Business Solutions AG; board member of UBS Switzerland AG;
Markus U. Diethelm  UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	General Counsel	Member of the Group Executive Board and Group General Counsel of UBS Group AG; board member of UBS Business Solutions AG; Chairman of the Swiss-American Chamber of Commerce's legal committee; member of the Swiss Advisory Council of the American Swiss Foundation; member of the Foundation Council of the UBS International Center of Economics in Society; Foundation Board member of the International Red Cross and Red Crescent Museum; member of the Professional Ethics Commission of the Association of Swiss Corporate Lawyers.
Kirt Gardner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Financial Officer	Member of the Group Executive Board and Group Chief Financial Officer of UBS Group AG; board member of UBS Business Solutions AG.
Sabine Keller-Busse UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Head Human Resources	Member of the Group Executive Board and Group Head Human Resources of UBS Group AG; board member of SIX Group (Chairman of the nomination & compensation committee); Foundation Board member of the UBS Pension Fund; Foundation Board member of the University Hospital Zurich.
Ulrich Körner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	President Asset Management and President UBS Europe, Middle East and Africa	Member of the Group Executive Board and President Asset Management and President Europe, Middle East and Africa of UBS Group AG; member of the Supervisory Board of UBS Europe SE; Chairman of the Foundation Board of the UBS Pension Fund; Chairman of the Widder Hotel, Zurich; Vice President of the board of Lyceum Alpinum Zuoz; member of the Financial Service Chapter Board of the Swiss-American Chamber of Commerce; Advisory Board member of the Department of Banking and Finance at the University of Zurich; member of the business advisory council of the Laureus Foundation Switzerland.
Axel P. Lehmann  UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Operating Officer	Member of the Group Executive Board and Group Chief Operating Officer of UBS Group AG; board member of UBS Business Solutions AG; Co-Chair of the Global Future Council of the Future of Financial and Monetary Systems of the World Economic Forum; Chairman of the board of the Institute of Insurance Economics at the University of St. Gallen; member of the International and Alumni Advisory Board of University of St. Gallen; member of the Swiss-American Chamber of Commerce Chapter Doing Business in USA.
Tom Naratil  UBS AG, 1200 Harbor Boulevard, Weehawken, NJ 07086 USA	President Wealth Management Americas and President UBS Americas	Member of the Group Executive Board and President Wealth Management Americas and President UBS Americas of UBS Group AG; Chairman of UBS Americas Holding LLC; board member of the American Swiss Foundation; board member of the Clearing House Supervisory Board; member of the Board of Consultants for the College of Nursing at Villanova University.
Andrea Orcel UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	President Investment Bank	Member of the Group Executive Board and President Investment Bank of UBS Group AG; board member of UBS Limited; board member of UBS Americas Holding LLC.
Kathryn Shih UBS AG, 2 International Finance Centre, 8 Finance Street, Central, Hong Kong	President UBS Asia Pacific	Member of the Group Executive Board and President UBS Asia Pacific of UBS Group AG; board member of Kenford International Ltd.; board member of Shih Co Charitable Foundation Ltd.; board member of Zygate Group Ltd.; member of the Hong Kong Trade Development Council (Financial Services Advisory Committee).
Jürg Zeltner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	President Wealth Management	Member of the Group Executive Board and President Wealth Management of UBS Group AG; board member of the German-Swiss Chamber of Commerce; member of the IMD Foundation Board, Lausanne.

### 4.3 Potential Conflicts of Interest

Members of the BoD and the EB may act as directors or executive officers of other companies (for current principal positions outside UBS AG, if any, please see sections 4.1.1 and 4.2.1 above) and may have economic or other private interests that differ from those of UBS AG. Conflicts of interest

may potentially arise from these positions or interests. For example, it cannot be excluded that a member of the BoD or EB has or will have a function within a company, the shares of which are or will be traded by UBS AG or which has or will have a business relationship with UBS AG. UBS AG 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 article 31 of the Articles of Association, UBS AG shareholders elect the auditors for a term of office of one year. At the AGM of 7 May 2015 and 4 May 2016, Ernst & Young Ltd., Aeschengraben 9, CH-4002 Basel ("Ernst & Young") were elected as auditors for the consolidated and standalone financial statements of UBS AG for a one-year term.

Ernst & Young are a member of EXPERTsuisse, the Swiss Expert Association for Audit, Tax and Fiduciary.

## 6. Major Shareholders of UBS AG

UBS Group AG owns 100% of the outstanding shares of UBS AG.

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

### 7.1 Historical Annual Financial Information

Detailed information about UBS AG (consolidated) and UBS AG assets and liabilities, financial position and profits and losses for financial year 2016 is available in the section "*UBS AG consolidated financial statements*" of the Annual Report 2016 and in the UBS AG's standalone financial statements for the year ended 31 December 2016 (the "Standalone Financial Statements"), respectively; and for financial year 2015 it is available in the "Consolidated financial statements" and "Legal entity financial and regulatory information" sections of the UBS Group AG and UBS AG annual report 2015, in English, published on 18 March 2016 ("Annual Report 2015"). The consolidated and standalone financial accounts are closed on 31 December of each year.

With respect to the financial year 2016, reference is made to:

- (i) the following parts of the Annual Report 2016: the UBS AG consolidated financial statements, in particular to the Income statement on page 478, the Balance sheet on page 481, the Statement of changes in equity on pages 482-485 (inclusive), the Statement of cash flows on pages 487-488 (inclusive) and the Notes to the consolidated financial statements on pages 489-634 (inclusive); and
- (ii) the following parts of the Standalone Financial Statements: the Income statement on page 1, the Balance sheet on pages 2-3 (inclusive), the Statement of appropriation of retained earnings and proposed dividend distribution out of capital contribution reserve on page 4, and the Notes to the UBS AG standalone financial statements on pages 5-21 (inclusive).

With respect to the financial year 2015, reference is made to the following parts of the Annual Report 2015:

- (i) the UBS AG consolidated financial statements, in particular to the Income statement on page 568, the Balance sheet on page 571, the Statement of changes in equity on pages 572-575 (inclusive), the Statement of cash flows on pages 577-578 (inclusive) and the Notes to the consolidated financial statements on pages 579-738 (inclusive); and
- (ii) the UBS AG standalone financial statements, in particular to the Income statement on page 772, the Balance sheet on page 773-774, the Statement of appropriation of retained earnings and proposed dividend distribution on page 775, and the Notes to the UBS AG standalone financial statements on pages 776-792 (inclusive).

The annual financial reports form an essential part of UBS AG's reporting. They include the audited consolidated financial statements of UBS AG, prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. The annual reports also include discussions and analysis of the consolidated financial and business results of UBS, its business divisions and the Corporate Center. In addition, UBS AG prepares and publishes standalone financial statements in accordance with Swiss GAAP, as well as certain additional disclosures required under US Securities and Exchange Commission regulations.



## **7.2 Auditing of Historical Annual Financial Information**

The consolidated financial statements of UBS AG and the standalone financial statements of UBS AG for financial years 2016 and 2015 were audited by Ernst & Young. The reports of the auditors on the consolidated financial statements can be found on pages 471-477 (inclusive) of the Annual Report 2016 and on pages 566-567 (inclusive) of the Annual Report 2015. The reports of the auditors on the standalone financial statements of UBS AG can be found on pages 22-25 (inclusive) of the Standalone Financial Statements and on pages 793-794 (inclusive) of the Annual Report 2015.

There are no qualifications in the auditors' reports on the consolidated financial statements of UBS AG and the standalone financial statements of UBS AG for the years ended on 31 December 2016 and 31 December 2015, which are incorporated by reference into this document.

## **7.3 Incorporation by Reference**

The Annual Report 2016, the Standalone Financial Statements and the Annual Report 2015 are fully incorporated in, and form an integral part of, this document.

## **7.4 Litigation, Regulatory and Similar Matters**

UBS 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 and the timing of resolution are often difficult to predict, particularly in the earlier stages of a case. There are also situations where UBS may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which UBS 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. UBS 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 UBS 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. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against UBS, but are nevertheless expected to be, based on UBS's experience with similar asserted claims. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to select matters could be significant.

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.

With respect to certain litigation, regulatory and similar matters for which UBS has established provisions, UBS is able to estimate the expected timing of outflows. However, the aggregate amount of the expected outflows for those matters for which it is able to estimate expected timing is immaterial relative to its current and expected levels of liquidity over the relevant time periods.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in "Note 20a Provisions" to the UBS AG's consolidated financial statements included in the Annual Report 2016. 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, that 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. Although it therefore cannot provide a numerical estimate of the future losses that could arise from litigation, regulatory and similar matters, UBS believes that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. For example, the Non-Prosecution Agreement ("NPA") described in item 5 of this section, which UBS entered into with the US Department of Justice ("DOJ"), Criminal Division, Fraud Section in connection with its submissions of benchmark interest rates, including, among others, the British Bankers' Association London Interbank Offered Rate ("LIBOR"), was terminated by the DOJ based on its determination that UBS had committed a US crime in relation to foreign exchange matters. As a consequence, UBS AG pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, paid a USD 203 million fine and is subject to a three-year term of probation. A guilty plea to, or conviction of, a crime (including as a result of termination of the NPA) could have material consequences for UBS. Resolution of regulatory proceedings may require UBS to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations and may permit financial market utilities to limit, suspend or terminate UBS's participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining UBS's capital requirements. Information concerning its capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" section of the Annual Report 2016.

**Provisions for litigation, regulatory and similar matters by business division and Corporate Center unit<sup>1, 2</sup>**

CHF million	Wealth Management		Personal & Corporate Banking	Asset Management	Investment Bank	CC – Services	CC – Group ALM	CC – Non-core and Legacy Portfolio	Total 31.12.16	Total 31.12.15
	<b>Balance at the beginning of the year</b>	245	459	83	16	585	310	0	1,284	<b>2,983</b>
Increase in provisions recognized in the income statement	76	113	7	5	43	5	0	606	<b>856</b>	1,263
Release of provisions recognized in the income statement	(6)	(15)	(4)	(6)	(2)	(3)	0	(11)	<b>(48)</b>	(166)
Provisions used in conformity with designated purpose	(19)	(137)	(9)	(9)	(13)	(49)	0	(318)	<b>(554)</b>	(1,174)
Foreign currency translation / unwind of discount	(4)	6	0	0	3	(4)	0	24	<b>25</b>	7
<b>Balance at the end of the year</b>	<b>292</b>	<b>425</b>	<b>78</b>	<b>5</b>	<b>616</b>	<b>259</b>	<b>0</b>	<b>1,585</b>	<b>3,261</b>	2,983

<sup>1</sup> Provisions, if any, for the matters described in this disclosure are recorded in Wealth Management (item 3), Wealth Management Americas (item 4), the Investment Bank (item 8), CC – Services (item 7) and CC – Non-core and Legacy Portfolio (item 2). Provisions, if any, for the matters described in this disclosure in items 1 and 6 are allocated between Wealth Management and Personal & Corporate Banking, and provisions, if any, for the matters described in this disclosure in item 5 are allocated between the Investment Bank, CC – Services and CC – Non-core and Legacy Portfolio. <sup>2</sup> Provision movements are grouped by item for purposes of this table and may therefore differ from those shown in the table in "Note 20a Provisions" to the UBS AG consolidated financial statements included in the Annual Report 2016.

### 1. Inquiries regarding cross-border wealth management businesses

Tax and regulatory authorities in a number of countries have made inquiries, served requests for information or examined employees located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. It is possible that implementation of automatic tax information exchange and other measures relating to cross-border provision of financial services could give rise to further inquiries in the future. UBS has received disclosure orders from the Swiss Federal Tax Administration ("FTA") to transfer information based on requests for international administrative assistance in tax matters. The requests concern a number of UBS account numbers pertaining to current and former clients and are based on data from 2006 and 2008. UBS has taken steps to inform affected clients about the administrative assistance proceedings and their procedural rights, including the right to appeal. The requests are based on data received from the German authorities, who seized certain data related to UBS clients booked in Switzerland during their investigations and have apparently shared this data with other European countries. UBS expects additional countries to file similar requests. In addition, the Swiss Federal Supreme Court ruled in September 2016 that the double taxation agreement between the Netherlands and Switzerland provides a sufficient legal basis for an administrative assistance group request without specifying the names of the targeted taxpayers, which makes it more likely that similar requests for administrative assistance will be granted by the FTA.

In 2013, as a result of investigations in France, UBS (France) S.A. and UBS AG were put under formal examination ("mise en examen") for complicity in having illicitly solicited clients on French territory and were declared witness with legal assistance ("témoin assisté") regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. In 2014, UBS AG was placed under formal examination with respect to the potential charges of laundering of

proceeds of tax fraud, and the investigating judges ordered UBS AG to provide bail (“caution”) of EUR 1.1 billion. UBS AG appealed the determination of the bail amount, but both the appeal court (“Cour d’Appel”) and the French Supreme Court (“Cour de Cassation”) upheld the bail amount and rejected the appeal in full in late 2014. UBS AG filed an application to the European Court of Human Rights (“ECHR”) to challenge various aspects of the French court’s decision. In January 2017, the ECHR denied UBS’s application. The Swiss Federal Administrative Court ruled in October 2016 that in the administrative assistance proceedings related to the French bulk request, UBS has the right to appeal all final FTA client data disclosure orders. In September 2015, the former CEO of UBS Wealth Management was placed under formal examination in connection with these proceedings. In addition, the investigating judges have sought to issue arrest warrants against three Swiss-based former employees of UBS AG who did not appear when summoned by the investigating judge.

In 2015, UBS (France) S.A. was placed under formal examination for complicity regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons for the years 2004 until 2008 and declared witness with legal assistance for the years 2009 to 2012. A bail of EUR 40 million was imposed and subsequently reduced by the Court of Appeals to EUR 10 million.

In February 2016, the investigating judges indicated to UBS AG and UBS (France) S.A. that they closed their investigation. In July 2016, UBS AG and UBS (France) S.A. formally received the National Financial Prosecutor’s recommendation (“réquisitoire”) which sets forth her recommendation for which facts and offences both UBS entities as well as several former employees should be tried. Both UBS entities submitted comments on the réquisitoire. On 20 March 2017, the investigating judges issued their final trial order (“ordonnance de renvoi en correctionnelle”), charging UBS AG and UBS France S.A., as well as several former employees with complicity in regarding the laundering of proceeds of tax fraud and illicit solicitation of French residents in France. The matter will now be transferred to court and scheduled for trial.

UBS has been notified by the Belgian investigating judge that it is under formal investigation (“inculpé”) regarding the laundering of proceeds of tax fraud and of banking, financial solicitation by unauthorized persons and serious tax fraud.

In 2015, UBS received inquiries from the US Attorney’s Office for the Eastern District of New York and from the US Securities and Exchange Commission (“SEC”), which are investigating potential sales to US persons of bearer bonds and other unregistered securities in possible violation of the Tax Equity and Fiscal Responsibility Act of 1982 (“TEFRA”) and the registration requirements of the US securities laws. UBS is cooperating with the authorities in these investigations.

UBS has, and reportedly numerous other financial institutions have, received inquiries from authorities concerning accounts relating to the Fédération Internationale de Football Association (“FIFA”) and other constituent soccer associations and related persons and entities. UBS is cooperating with authorities in these inquiries.

UBS’s balance sheet at 31 December 2016 reflected provisions with respect to matters described in this item 1 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 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.

## 2. 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 totalled 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.

*RMBS-related lawsuits concerning disclosures:* UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in lawsuits related to approximately USD 2.5 billion in original face amount of RMBS underwritten or issued by UBS. Of the USD 2.5 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 1.2 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 1.3 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.

UBS is a defendant in a lawsuit brought by the National Credit Union Administration ("NCUA") as conservator for certain failed credit unions, asserting misstatements and omissions in the offering documents for RMBS purchased by the credit unions. The lawsuit was filed in the US District Court for the District of Kansas. The original principal balance at issue in the case is approximately USD 1.15 billion. In March 2017, UBS and NCUA reached an agreement in principle to resolve this matter. In the second quarter of 2016, UBS resolved a similar case brought by the NCUA in the US District Court for the Southern District of New York ("SDNY") relating to RMBS with an original principal balance of approximately USD 400 million, for a total of approximately USD 69.8 million, in addition to reasonable attorneys' fees incurred by NCUA.

*Lawsuits related to contractual representations and warranties concerning 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 the representations 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 aggregating approximately USD 4.1 billion in original principal balance. Of this amount, UBS considers claims relating to approximately USD 2 billion in original principal balance to be resolved, including claims barred by the statute of limitations. Substantially all of the remaining claims are in litigation, including the matters described in the next paragraph. UBS believes that new demands to repurchase US residential mortgage loans are time-barred under a decision rendered by the New York Court of Appeals.

In 2012, certain RMBS trusts filed an action ("Trustee Suit") in the SDNY seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations with an original principal balance of approximately USD 2 billion, for which Assured Guaranty Municipal Corp., a financial guaranty insurance company, had previously demanded repurchase. A bench trial in the SDNY adjourned in May 2016. Approximately 9,000 loans were at issue in the trial. In

September 2016, the court issued an order ruling on numerous legal and factual issues and applying those rulings to 20 exemplar loans. The court further ordered that a lead master be appointed to apply the court's rulings to the loans that remain at issue following the trial. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions.

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.

*Mortgage-related regulatory matters:* In 2014, UBS received a subpoena from the US Attorney's Office for the Eastern District of New York issued pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), which seeks documents and information related to UBS's RMBS business from 2005 through 2007. In 2015, the Eastern District of New York identified a number of transactions that are the focus of their inquiry, and has subsequently provided a revised list of transactions. UBS has provided and continues to provide information. UBS continues to respond to the FIRREA subpoena and to subpoenas from the New York State Attorney General and other state attorneys general relating to its RMBS business. In addition, UBS has also been responding to inquiries from both the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") (who is working in conjunction with the US Attorney's Office for Connecticut and the DOJ) and the SEC relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through 2014. UBS is cooperating with the authorities in these matters.

As reflected in the table "Provision for claims related to sales of residential mortgage-backed securities and mortgages," UBS's balance sheet at 31 December 2016 reflected a provision of USD 1,500 million with respect to matters described in this item 2. 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.

<b>Provision for claims related to sales of residential mortgage-backed securities and mortgages</b>		
<i>USD million</i>	<b>31.12.16</b>	31.12.15
Balance at the beginning of the year	<b>1,218</b>	849
Increase in provision recognized in the income statement	<b>589</b>	662
Release of provision recognized in the income statement	<b>0</b>	(94)
Provision used in conformity with designated purpose	<b>(307)</b>	(199)
<b>Balance at the end of the year</b>	<b>1,500</b>	1,218

### 3. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC ("BMIS") investment fraud, UBS AG, UBS (Luxembourg) S.A. and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including 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) S.A. 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 were 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 2014, the Luxembourg Court of Appeal dismissed one test case appeal in its entirety, which decision was appealed by the investor. In 2015, the Luxembourg Supreme Court found in favour of UBS and dismissed the investor's appeal. In June 2016, the Luxembourg Court of Appeal dismissed the remaining test cases in their entirety. In the US, the BMIS Trustee filed claims in 2010 against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. The total amount claimed against all defendants in these actions was not less than USD 2 billion. Following a motion by UBS, in 2011, the SDNY 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 2013, the Second Circuit affirmed the District Court's decision and, in 2014, the US Supreme Court denied the BMIS Trustee's petition seeking review of the Second Circuit ruling. In November 2016, the bankruptcy court issued an opinion dismissing the remaining claims for recovery of subsequent transfers of fraudulent conveyances and preference payments on the ground that the US Bankruptcy Code does not apply to transfers that occurred outside the US. The BMIS Trustee has indicated that he will appeal. In 2014, several claims, including a purported class action, were filed in the US by BMIS customers against UBS entities, asserting claims similar to the ones made by the BMIS Trustee, seeking unspecified damages. One claim was voluntarily withdrawn by the plaintiff. In 2015, following a motion by UBS, the SDNY dismissed the two remaining claims on the basis that the New York courts did not have jurisdiction to hear the claims against the UBS entities. The plaintiff in one of those claims has appealed the dismissal. 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. In 2015, a court of appeal ordered UBS to pay EUR 49 million, plus interest of approximately EUR 15.3 million.

#### 4. Puerto Rico

Declines since August 2013 in the market prices of Puerto Rico municipal bonds and of closed-end funds ("the funds") that are sole-managed and co-managed by UBS Trust Company of Puerto Rico and distributed by UBS Financial Services Incorporated of Puerto Rico ("UBS PR") have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages of approximately USD 2.0 billion, of which claims with aggregate claimed damages of approximately USD 861 million have been resolved through settlements, arbitration or withdrawal of the claim. The claims are filed by clients in Puerto Rico who own the funds or Puerto Rico municipal bonds and / or who used their UBS account assets as collateral for UBS non-purpose loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the funds and of the loans. A shareholder derivative action was filed in 2014 against various UBS entities and current and certain former directors of the funds, alleging hundreds of millions of US dollars in losses in the funds. In 2015, defendants' motion to dismiss was denied. Defendants' requests for permission to appeal that ruling were denied by the Puerto Rico Court of Appeals and the Puerto Rico Supreme Court. In 2014, a federal class action complaint also was filed against various UBS entities, certain members of UBS PR senior management, and the co-manager of certain of the funds

seeking damages for investor losses in the funds during the period from May 2008 through May 2014. Defendants had moved to dismiss that complaint, and in December 2016, defendants' motion to dismiss was granted in part and denied in part. In 2015, a class action was filed in Puerto Rico state court against UBS PR seeking equitable relief in the form of a stay of any effort by UBS PR to collect on non-purpose loans it acquired from UBS Bank USA in December 2013 based on plaintiffs' allegation that the loans are not valid. The trial court denied defendants' motion to dismiss the action based on a forum selection clause in the loan agreements; the Puerto Rico Supreme Court has stayed the action pending its review of defendants' appeal from that ruling.

In 2014, UBS reached a settlement with the Office of the Commissioner of Financial Institutions for the Commonwealth of Puerto Rico ("OCFI") in connection with OCFI's examination of UBS's operations from January 2006 through September 2013, pursuant to which UBS is paying up to an aggregate of USD 7.7 million in investor education contributions and restitution.

In 2015, the SEC and the Financial Industry Regulatory Authority ("FINRA") announced settlements with UBS PR of their separate investigations stemming from the 2013 market events. Without admitting or denying the findings in either matter, UBS PR agreed in the SEC settlement to pay USD 15 million and USD 18.5 million in the FINRA matter. UBS also understands that the DOJ is conducting a criminal inquiry into the impermissible reinvestment of non-purpose loan proceeds. UBS is cooperating with the authorities in this inquiry.

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 PR, which was named in connection with its underwriting and consulting services. Plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. Defendants' motion to dismiss is pending. In September 2016, the System announced its intention to join the action as a plaintiff, and the court has since ordered that plaintiffs must file an amended complaint.

Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in 2012. Beginning in 2012, two federal class action complaints, which were subsequently consolidated, were filed against various UBS entities, certain of the funds, and certain members of UBS PR senior management, seeking damages for investor losses in the funds during the period from January 2008 through May 2012 based on allegations similar to those in the SEC action. In September 2016, the court denied plaintiffs' motion for class certification. In October 2016, plaintiffs filed a petition with the US Court of Appeals for the First Circuit seeking permission to bring an interlocutory appeal challenging the denial of their motion for class certification. Defendants have filed an opposition to plaintiffs' petition.

Beginning in 2015, agencies and public corporations of the Commonwealth have defaulted on certain interest payments, and in July 2016, the Commonwealth defaulted on payments on its general obligation debt. Executive orders of the Governor that have diverted funds to pay for essential services instead of debt payments and stayed any action to enforce creditors' rights on the Puerto Rico bonds continue to be in effect. In June 2016, US federal legislation created an oversight board with power to oversee Puerto Rico's finances and to restructure its debt. The oversight board is authorized to impose, and has imposed, a stay on exercise of creditors' rights. These events, further defaults, any further legislative action to create a legal means of restructuring Commonwealth obligations or to impose additional oversight on the Commonwealth's finances, or any restructuring of the Commonwealth's obligations, may increase the number of claims against UBS concerning Puerto Rico securities, as well as potential damages sought.



UBS's balance sheet at 31 December 2016 reflected provisions with respect to matters described in this item 4 in amounts 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 provisions that UBS has recognized.

#### 5. Foreign exchange, LIBOR, and benchmark rates, and other trading practices

*Foreign exchange-related regulatory matters:* Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes its precious metals and related structured products businesses. Since then, various authorities have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, the Swiss Competition Commission ("WEKO"), the DOJ, the SEC, the US Commodity Futures Trading Commission ("CFTC"), the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), the California State Attorney General, 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 Australian Securities and Investments Commission ("ASIC"), the Hong Kong Monetary Authority ("HKMA"), the Korea Fair Trade Commission ("KFTC") and the Brazil Competition Authority ("CADE"). In addition, WEKO is, and a number of other authorities reportedly are, investigating potential manipulation of precious metals prices. UBS has taken and will continue to take appropriate action with respect to certain personnel as a result of its ongoing review.

In 2014, UBS reached settlements with the FCA and the CFTC in connection with their foreign exchange investigations, and FINMA issued an order concluding its formal proceedings with respect to UBS relating to its foreign exchange and precious metals businesses. UBS has paid a total of approximately CHF 774 million to these authorities, including GBP 234 million in fines to the FCA, USD 290 million in fines to the CFTC, and CHF 134 million to FINMA representing confiscation of costs avoided and profits. In 2015, the Federal Reserve Board and the Connecticut Department of Banking issued an Order to Cease and Desist and Order of Assessment of a Civil Monetary Penalty Issued upon Consent ("Federal Reserve Order") to UBS AG. As part of the Federal Reserve Order, UBS AG paid a USD 342 million civil monetary penalty.

In 2015, the DOJ's Criminal Division ("Criminal Division") terminated the December 2012 NPA with UBS AG related to UBS's submissions of benchmark interest rates. As a result, UBS AG entered into a plea agreement with the Criminal Division pursuant to which UBS AG pleaded guilty to a one-count criminal information filed in the US District Court for the District of Connecticut charging UBS AG with one count of wire fraud in violation of 18 USC Sections 1343 and 2. Sentencing occurred on 5 January 2017. Under the plea agreement, UBS AG has paid a USD 203 million fine and is subject to a three-year term of probation starting on the sentencing date. The criminal information charges that, between approximately 2001 and 2010, UBS AG engaged in a scheme to defraud counterparties to interest rate derivatives transactions by manipulating benchmark interest rates, including Yen LIBOR. The Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA, including fraudulent and deceptive currency trading and sales practices in conducting certain foreign exchange market transactions with clients and collusion with other participants in certain foreign exchange markets.

UBS has ongoing obligations to cooperate with these authorities and to undertake certain remediation, including actions to improve UBS's processes and controls.

UBS has been granted conditional leniency or conditional immunity by the Antitrust Division of the DOJ ("Antitrust Division") from prosecution for EUR / USD collusion and entered into a non-prosecution agreement covering other currency pairs. As a result, UBS AG will not be subject to

prosecutions, fines or other sanctions for antitrust law violations by the Antitrust Division, subject to UBS AG's continuing cooperation. However, the conditional leniency and conditional immunity grant does not bar government agencies from asserting other claims and imposing sanctions against UBS AG, as evidenced by the settlements and ongoing investigations referred to above. UBS has also been granted conditional immunity by authorities in certain jurisdictions, including WEKO, in connection with potential competition law violations relating to foreign exchange and precious metals businesses and, as a result, will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in those jurisdictions, subject to UBS AG's continuing cooperation as the leniency applicant.

Investigations relating to foreign exchange and precious metals matters by numerous authorities, including the CFTC, remain ongoing notwithstanding these resolutions.

*Foreign exchange-related civil litigation:* Putative class actions have been filed since November 2013 in US federal courts and in other jurisdictions against UBS and other banks on behalf of putative classes of persons who engaged in foreign currency transactions with any of the defendant banks. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. In 2015, additional putative class actions were filed in federal court in New York against UBS and other banks on behalf of a putative class of persons who entered into or held any foreign exchange futures contracts and options on foreign exchange futures contracts since 1 January 2003. The complaints assert claims under the Commodity Exchange Act ("CEA") and the US antitrust laws. In 2015, a consolidated complaint was filed on behalf of both putative classes of persons covered by the US federal court class actions described above. UBS has entered into a settlement agreement that would resolve all of these US federal court class actions. The agreement, which has been preliminarily approved by the court and is subject to final court approval, requires, among other things, that UBS pay an aggregate of USD 141 million and provide cooperation to the settlement classes.

A putative class action has been filed in federal court in New York against UBS and other banks on behalf of participants, beneficiaries, and named fiduciaries of plans qualified under the Employee Retirement Income Security Act of 1974 ("ERISA") for whom a defendant bank provided foreign currency exchange transactional services, exercised discretionary authority or discretionary control over management of such ERISA plan, or authorized or permitted the execution of any foreign currency exchange transactional services involving such plan's assets. The complaint asserts claims under ERISA. The parties filed a stipulation to dismiss the case with prejudice. The plaintiffs have appealed the dismissal.

In 2015, a putative class action was filed in federal court against UBS and numerous other banks on behalf of a putative class of persons and businesses in the US who directly purchased foreign currency from the defendants and their co-conspirators for their own end use. That action has been transferred to federal court in New York. Motions to dismiss are pending.

In 2016, a putative class action was filed in federal court in New York against UBS and numerous other banks on behalf of a putative class of persons and entities who had indirectly purchased FX instruments from a defendant or co-conspirator in the US. The complaint asserts claims under federal and state antitrust laws. Motions to dismiss will be filed.

In 2015, UBS was added to putative class actions pending against other banks in federal court in New York and other jurisdictions on behalf of putative classes of persons who had bought or sold physical precious metals and various precious metal products and derivatives. The complaints in these lawsuits assert claims under the antitrust laws and the CEA, and other claims. In October 2016, the court in New York granted UBS's motions to dismiss the putative class actions relating to gold and silver. Plaintiffs in those cases are seeking to amend their complaints to add new allegations about UBS. UBS's motion to dismiss the putative class action relating to platinum and palladium remains pending.

*LIBOR and other benchmark-related regulatory matters:* Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the SFO, the Monetary Authority of Singapore ("MAS"), the 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 LIBOR and other benchmark rates. 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 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 has paid 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, USD 500 million in fines to the DOJ, and CHF 59 million in disgorgement to FINMA. UBS Securities Japan Co. Ltd. ("UBSSJ") entered into a plea agreement with the DOJ under which it entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. UBS entered into an NPA with the DOJ, which (along with the plea agreement) covered conduct beyond the scope of the conditional leniency / immunity grants described below, required UBS to pay the USD 500 million fine to the DOJ after the sentencing of UBSSJ and provided that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. Under the NPA, UBS agreed, among other things, that for two years from 18 December 2012 UBS would not commit any US crime and it would advise DOJ of any potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. The term of the NPA was extended by one year to 18 December 2015. In 2015, the Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA.

In 2014, UBS reached a settlement with the European Commission ("EC") regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives and paid a EUR 12.7 million fine, which was reduced to this level based in part on UBS's cooperation with the EC. In December 2016, UBS reached a settlement with WEKO regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives and received full immunity from fines. The MAS, HKMA and the Japan Financial Services Agency have also resolved investigations of UBS (and in some cases, other banks). UBS has ongoing obligations to cooperate with the authorities with whom UBS has reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions.

Investigations by the CFTC, ASIC and other governmental 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 WEKO, in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. 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 UBS has conditional immunity in connection with the matters covered by the conditional grants, subject to UBS's continuing cooperation as leniency applicant. However, since the Secretariat of WEKO has asserted that UBS does not qualify for full immunity, UBS has been unable to reach a settlement with WEKO, and therefore the investigation will continue. Furthermore, the conditional leniency and conditional immunity grants UBS has received do not bar government agencies from asserting other claims and imposing sanctions against it, 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.

*LIBOR and other benchmark-related civil litigation:* A number of putative class actions and other actions are pending in the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives. Also pending in the US and in other jurisdictions are actions asserting losses related to various products whose interest rates were linked to LIBOR and other benchmarks, 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 USD LIBOR, Euroyen TIBOR, Yen LIBOR, EURIBOR, CHF LIBOR, GBP LIBOR, USD ISDAFIX rates and other benchmark rates, and seek unspecified compensatory and other damages under varying legal theories.

In 2013, the US district court in the USD LIBOR action dismissed the federal antitrust and racketeering claims of certain USD LIBOR plaintiffs and a portion of their claims brought under the CEA and state common law. Certain plaintiffs appealed the decision to the Second Circuit, which, in May 2016, vacated the district court's ruling finding no antitrust injury and remanded the case back to the district court for a further determination on whether plaintiffs have antitrust standing. In December 2016, the district court again dismissed plaintiffs' antitrust claims, this time for lack of personal jurisdiction over UBS and other foreign banks. In 2014, the court in one of the Euroyen TIBOR lawsuits dismissed certain of the plaintiff's claims, including federal antitrust claims. In 2015, the same court dismissed plaintiff's federal racketeering claims and affirmed its previous dismissal of plaintiff's antitrust claims. UBS and other defendants in other lawsuits including those related to EURIBOR, CHF LIBOR, GBP LIBOR and SIBOR have filed motions to dismiss. UBS has entered into an agreement with representatives of a class of bondholders to settle their USD LIBOR class action. The agreement is subject to court approval.

Since September 2014, putative class actions have been filed in federal court in New York and New Jersey against UBS and other financial institutions, among others, on behalf of parties who entered into interest rate derivative transactions linked to ISDAFIX. The complaints, which have since been consolidated into an amended complaint, allege that the defendants conspired to manipulate ISDAFIX rates from 1 January 2006 through January 2014, in violation of US antitrust laws and certain state laws, and seek unspecified compensatory damages, including treble damages. In March 2016, the court in the ISDAFIX action denied in substantial part defendants' motion to dismiss, holding that plaintiffs have stated Sherman Act, breach-of-contract and unjust-enrichment claims against defendants, including UBS AG.

*Government bonds:* Putative class actions have been filed in US federal courts against UBS and other banks on behalf of persons who participated in markets for US Treasury securities since 2007. The complaints generally allege that the banks colluded with respect to, and manipulated prices of, US Treasury securities sold at auction. They assert claims under the antitrust laws and the CEA and for unjust enrichment. The cases have been consolidated in the SDNY. Following filing of these complaints, UBS and reportedly other banks are responding to investigations and requests for information from various authorities regarding US Treasury securities and other government bond trading practices. As a result of its review to date, UBS has taken appropriate action.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, UBS's balance sheet at 31 December 2016 reflected a provision 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 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.

#### 6. Swiss retrocessions

The Federal Supreme Court of Switzerland ruled in 2012, in a test case against UBS, that distribution fees paid to a firm 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 firm, absent a valid waiver.

FINMA has issued a supervisory note to all Swiss banks in response to the Supreme Court decision. UBS has met the FINMA requirements and has notified all potentially affected clients.

The Supreme Court decision has resulted, and may continue to result, in a number of client requests for UBS to disclose and potentially surrender retrocessions. Client requests are assessed on a case-by-case basis. Considerations 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 31 December 2016 reflected a provision with respect to matters described in this item 6 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. 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.

#### 7. 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 2.6 billion, including interest and penalties, which is net of liabilities retained by BTG. 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 challenged in administrative and judicial proceedings. The majority of these assessments relate to the deductibility of goodwill amortization in connection with UBS's 2006 acquisition of Pactual and payments made to Pactual employees through various profit-sharing plans. In 2015, an intermediate administrative court issued a decision that was largely in favor of the tax authority with respect to the goodwill amortization assessment. In May 2016, the highest level of the administrative court agreed to review this decision on a number of the significant issues.

#### 8. Investigation of UBS's role in initial public offerings in Hong Kong

The Hong Kong Securities and Futures Commission ("SFC") has been conducting investigations into UBS's role as a sponsor of certain initial public offerings listed on the Hong Kong Stock Exchange. In October 2016, the SFC informed UBS that it intends to commence action against UBS and certain UBS employees with respect to sponsorship work in those offerings. If such action is taken, there may be financial ramifications for UBS, including fines and obligations to pay investor compensation, and suspension of UBS's ability to provide corporate finance advisory services in Hong Kong for a period of time. On 16 January 2017, a writ was filed by the SFC with Hong Kong's High Court in which UBS is named as one of six defendants from whom the SFC is seeking compensation in an unspecified amount for losses incurred by certain shareholders of China Forestry Holdings Company Limited, for whom UBS acted as a sponsor in connection with their 2009 listing application.

Except as otherwise disclosed in this document (including in the documents incorporated by reference herein), 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.

## **7.5 Material Contracts**

Except as otherwise disclosed in this document (including the documents incorporated herein by reference), no material contracts have been entered into outside of the ordinary course of UBS AG's or UBS AG Group's business, which could result in any member of the UBS AG 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.

## **7.6 Significant Changes in the Financial or Trading Position; Material Adverse Change in Prospects**

Except as otherwise indicated in this document (including the documents incorporated herein by reference), no material changes have occurred in UBS AG's assets and liabilities, financial position or profits and losses since 31 December 2016.

Except as otherwise disclosed in this document (including in the documents incorporated herein by reference), there has been no material adverse change in the prospects of UBS AG or UBS AG Group since 31 December 2016.

## 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 385,840,846.60, divided into 3,858,408,466 registered shares with a par value of CHF 0.10 each (article 4), (ii) no authorized capital and (iii) conditional capital in the amount of (a) CHF 13,620,031.20, comprising 136,200,312 registered shares with a par value of CHF 0.10 each that can be issued upon exercise of employee options; and (b) CHF 38,000,000, comprising 380,000,000 registered shares with a par value of CHF 0.10 each that can be issued upon the voluntary or mandatory exercise of conversion rights and/or warrants (article 4a).

## 9. Dividends

For the financial years ended on 31 December 2012 and 31 December 2013, UBS AG paid to its shareholders a cash dividend of CHF 0.15 and CHF 0.25 per share of CHF 0.10 par value, respectively. For the financial year ended on 31 December 2014, UBS AG paid to its shareholders a dividend of CHF 0.50 per share of CHF 0.10 par value in cash or, at the election of each shareholder, a number of new UBS AG shares as to be of substantially equivalent value to CHF 0.50. UBS AG also paid a supplementary cash dividend of CHF 0.25 per share of CHF 0.10 par value. For the financial year ended 31 December 2015, UBS AG paid a dividend of CHF 3,434 million to UBS Group AG. In addition, as part of the establishment of UBS Business Solutions AG, UBS AG paid a cash dividend of CHF 30 million and transferred its participation in the Poland Service Center as a dividend-in-kind at book value of CHF 5 million to UBS Group AG in 2015. For the financial year ended on 31 December 2016, UBS AG paid to UBS Group AG a dividend of CHF 2,250 million.



## 10. Documents on Display

- The annual report of UBS Group AG and UBS AG as of 31 December 2016, comprising the introductory section, as well as 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 statements (including the "Statutory auditor's report on the audit of the consolidated financial statements" and the "Report of Independent Registered Public Accounting Firm"), (6) Additional regulatory information, and the Appendix;
- The UBS AG standalone financial statements and regulatory information for the year ended 31 December 2016 (including the "Report of the statutory auditor on the financial statements");
- The annual report of UBS Group AG and UBS AG as of 31 December 2015, comprising the introductory section, as well as 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) Consolidated financial statements (including the "Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements"), (6) Legal entity financial and regulatory information (including the "Report of the statutory auditor on the financial statements"), (7) Additional regulatory information, and the Appendix;
- The UBS Group fourth quarter 2016 report; 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, or quarterly result materials, of UBS Group AG and UBS AG are published on UBS's website, at [www.ubs.com/investors](http://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](http://www.ubs.com/governance).