



UBS General Terms and Conditions for Fixed Income Structured Products

Date
Version

17 November 2015
2015-10

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I. Preliminary Remarks

UBS AG (the "**Issuer**") may from time to time issue structured notes, certificates or, as the case may be, warrants (each a "**Note**", a "**Certificate**", a "**Warrant**" or a "**Security**", together the "**Notes**", the "**Certificates**", the "**Warrants**" or the "**Securities**"). The Securities will be issued based on (a) the information set out in these General Terms and Conditions for Fixed Income Structured Products, as amended from time to time (the "**General Terms and Conditions**") and (b) the relevant final terms of each Security which shall include the information required for a simplified prospectus pursuant to article 5 CISA (the "**Final Terms**"). The General Terms and Conditions and the relevant Final Terms shall form the entire documentation for each Security (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 Securities 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 Securities 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. Any Securities 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 actions relating to the Securities in such jurisdiction. The selling restrictions listed in the relevant Final Terms must not be taken as definitive guidance as to whether the Securities can be sold in a jurisdiction. Additional restrictions on offering, selling or holding of the Securities may apply in other jurisdictions. Security holders should seek specific advice before on-selling the Securities.

These General Terms and Conditions and the Final Terms do not qualify as a prospectus published in accordance with the requirements of Directive 2003/71/EC, as amended, (the "EUPD") and are not filed with or notified to a financial supervisory authority of an EEA jurisdiction. Therefore, the Securities under this Product Documentation may not be offered or sold in EEA jurisdictions other than (a) in minimum denominations of, or total consideration per investor of at least, EUR 100,000 (or equivalent in other currencies); or (b) only to Qualified Investors (as defined in the EUPD); and/or (c) (aggregated for all distributors) to less than 150 natural or legal persons that are not Qualified Investors (as defined in the EUPD) per EEA jurisdiction. Furthermore, the Securities under this Product Documentation have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended, and are subject to U.S. tax law requirements. Trading in the Securities has not been approved by the U.S. Commodity Futures Trading Commission under the U.S. Commodity Exchange Act of 1936, as amended or by the U.S. Securities Exchange Commission. The Notes may not be offered, sold or delivered, at any time, within the United States or to, or for the account or benefit of, U.S. persons. The Notes are also subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person.

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

II. Product Specific Terms and Conditions

1. Interest

1.1 General

The provisions of this section II. 1 only apply to coupon bearing Securities. For non-coupon bearing Securities such as, but not limited to, accreting Securities, Warrants or Securities with a zero coupon structure, the following provisions are not applicable.

1.2 Rate of Interest and Interest Payments

Unless otherwise stated in the relevant Final Terms, each Security bears interest at the applicable Interest Rate on its Specified Denomination (as specified as applicable in the relevant Final Terms) from and including the Issue Date, or, if specified as applicable in the relevant Final Terms, the Interest Commencement Date, to but excluding the Maturity Date. The interest payments in respect of each Security will be made in arrears on each Interest Payment Date.

In case the relevant Final Terms provide for a Minimum Interest Rate (floor) and/or a Maximum Interest Rate (cap) and the Interest Rate falls below such Minimum Interest Rate or is above such Maximum Interest Rate, the Interest Rate shall be the Minimum Interest Rate or the Maximum Interest Rate, respectively.

1.3 Interest Amount

The Calculation Agent will, as soon as practicable after each time at which the Interest Rate is to be determined, calculate the amount of interest (the "**Interest Amount**") payable on the Securities in respect of each Specified Denomination for the relevant Interest Period in accordance with the interest provisions provided for in the relevant Final Terms.

1.4 Notification of Interest Amount, Interest Period and Interest Payment Dates

The Calculation Agent will notify the Securityholders and, if applicable and required by the rules of the Relevant Stock Exchange, the Relevant Stock Exchange, of the Interest Amount for each Interest Period, the Interest Period and the relevant Interest Payment Date as soon as reasonably practicable after the determination thereof. Each Interest Amount, Interest Period and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements by way of adjustment may be made) provided that any such amendment or alternative arrangement will as soon as reasonably practicable be notified to the Securityholders and the Relevant Stock Exchange (if applicable). Failure of the Calculation Agent to provide the Securityholders or, as the case may be, the Relevant Stock Exchange with such notice shall not affect the validity of the actions described above.

1.5 Day Count Fraction and Business Day Convention

1.5.1 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 Maturity Date and the 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).

1.5.2 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 Securities), 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.

1.6 Default Interest

If the Issuer for any reason (other than due to the occurrence of a Price Source Disruption Event pursuant to section III. 5 (*Price Source Disruption Event*) or a Settlement Disruption Event pursuant to section III. 6 (*Settlement Disruption Event*)) fails to render any payment in respect of the Securities when due, interest shall accrue at a default rate of 2.00 per cent. per annum on the due amount from and including the due date to but excluding the day on which such payment is made by the Issuer in accordance with III. 3 (*Payments and Deliveries*).

2. Floating Rate

2.1 Determination of the applicable Floating Rate

If the relevant Final Terms provide for the determination of a Floating Rate, the Calculation Agent shall determine the relevant fixing of the applicable Floating Rate in accordance with section 'Underlying' in the relevant Final Terms.

If the source specified in the Final Terms for the determination of the relevant Floating Rate does not publish the relevant fixing on the relevant fixing date, then the Calculation Agent shall attempt to determine a fixing for the Floating Rate 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 Floating Rate); or
- (b) on the basis of quotations for the rate for deposits in the relevant currency for a period of the Designated Maturity and in such amount as the Calculation shall determine 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 Floating Rate shall be the arithmetic mean (rounded if necessary in accordance with section III. 14 (*Determinations, Calculations, Rounding and Time*)) 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 Floating Rate shall be determined by the Calculation Agent in its discretion (including, without limitation, on the basis of the last available fixings of the corresponding Floating Rate prior to the relevant fixing date),

provided that if the relevant Floating Rate ceases to be available or published (such as the LIBOR® for a term of e.g. 4 months) and there is no successor for such Floating Rate, but floating rates for different terms continue to be available and published, the Floating Rate in question shall be calculated by linear interpolation of available floating rates which correspond to the next longer and shorter term.

2.2 Interpolation of Floating Rate

If a determination of a Floating Rate has to be made in respect of a period which 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 Floating Rate for such period shall be determined by linear interpolation of (a) the applicable Floating Rate corresponding to the Designated Maturity for which the applicable Floating Rate is typically quoted and which is next shorter than the period and (b) the applicable Floating Rate corresponding to the Designated Maturity for which the applicable Floating Rate is typically quoted and which is next longer than the period.

3. Redemption

3.1 Final Redemption

Unless the Final Terms provide otherwise and unless the Securities have been redeemed prior to the Maturity Date, each Security shall be redeemed by the Issuer at its Redemption Amount on the Maturity Date. The Redemption Amount shall be paid in cash in the Settlement Currency or, if so specified in the relevant Final Terms, by physical delivery of an asset or assets.

3.2 Optional Redemption following an Issuer's Call

If the Final Terms specify that the Securities are callable by the Issuer (*i.e.* if the Securities are subject to an Issuer redemption option), the Issuer may redeem all, but not part, of the Securities then outstanding on the date and at the amount specified in the relevant Final Terms (together with any interest accrued to but excluding the relevant optional redemption date in case of coupon bearing Securities) upon giving a valid notice to the Securityholders as provided for in the Final Terms.

3.3 Optional Redemption following a Securityholder's Put

If the Final Terms specify that the Securities are puttable by each Securityholder (*i.e.* if the Securities are subject to a Securityholder redemption option), each Securityholder may redeem all, but not part, of the Securities then outstanding and held by such Securityholder on the date and at the amount specified in the relevant Final Terms (together with any interest accrued to but excluding the relevant optional redemption date in case of coupon bearing Securities) upon giving a valid notice to the Issuer as provided for in the Final Terms.

3.4 Automatic Early Redemption

If the Final Terms specify that the Securities will be redeemed in case an Automatic Early Redemption Requirement is met, the Securities will be automatically redeemed 10 Business Days (or such other time period specified in the relevant Final Terms) after such Automatic Early Redemption Requirement has been met. The redemption amount payable to the Securityholders following such an automatic early redemption is specified in the relevant Final Terms.

3.5 Early Redemption

If an Early Redemption Event as specified in the Final Terms occurs, the Issuer may redeem each Security at any time prior to the Maturity Date at its Early Redemption Amount (in each case together with any accrued interest in the case of coupon bearing Securities), by giving a notice to the Securityholders.

If the Issuer chooses to redeem the Securities in accordance with this provision, the Issuer shall redeem all, but not part, of the Securities then outstanding 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 Security to the Securityholders 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 Securityholder 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 Securityholders.

III. General Terms and Conditions

1 Form of Securities

The Securities 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 Securities are intermediated securities, the Securities may only be transferred and otherwise disposed of in accordance with the provisions of the FISA (*i.e.* by entry of the Securities to be transferred in a securities account of the transferee) and the holders of the Securities will be the persons holding the Securities in such securities account in their own name and for their own account.

The Securityholders 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 Securities.

No physical delivery of any Securities shall be made unless and until such Securities have been printed. In case of Securities in the form of uncertificated securities registered with SIX SIS or any other clearing system, such Securities may only be printed (in whole but not in part) if that clearing system goes out of business without a successor. In case of Securities issued in the form of bearer notes, such Securities 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 Securities / Classification

Unless otherwise stated in the relevant Final Terms, the obligations under the Securities 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 Securities do not represent a participation in any of the collective investment schemes pursuant to article 7 *et seq.* of the CISA and thus do not require an authorisation of the FINMA. Therefore, Securityholders are not eligible for the specific investor protection under the CISA. Furthermore, the Securities 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 Securities.

3 Payments and Deliveries

3.1 Payments under the Securities

All payments in respect of the Securities 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 the relevant Clearing System.

3.2 Deliveries under the Securities

The delivery of any asset(s) in respect of the Securities will be affected to the order of the relevant Securityholder and will be credited to a securities account which forms part of the relevant Clearing System or the relevant intermediary to which the Securities were accounted to. No Securityholder will be entitled to receive any interest declared or paid in respect of the asset(s) to be delivered if the date of such payment falls before the date on which the asset(s) is/are credited into the securities account of the relevant Securityholder. All expenses, including but not limited to, any depository charges, levies, recording fees, registration, transaction or exercise charges, stamp duties, stamp duty reserve taxes and/or other taxes or duties (together the "**Delivery Expenses**") arising from the delivery of such asset(s) shall be for the account of the relevant Securityholder and no delivery and/or transfer of the asset(s) in respect of a Security shall be made until all Delivery Expenses have been discharged to the satisfaction of the Issuer by the relevant Securityholder.

3.3 Discharge

The Issuer shall be discharged from its payment or delivery obligations under the Securities by payment or delivery to, or to the order of, the Clearing System or the relevant intermediary. The Issuer is not liable for any losses incurred by Securityholders due to a non-performance of the respective Clearing System or intermediary.

4 Adjustments in accordance with Business Day Convention

If a date set out in the Final Terms (including, without limitation, the Maturity Date and each Interest Payment Date) falls on a day which is not a Business Day then (unless otherwise specified and subject to section II. 1.5 (*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 that is required to make a determination in respect of the Securities is not observable from the relevant source due to the fact that such source is 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, subject to the provisions set out in section II. 2.1 (*Determination of the applicable Floating Rate*), 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 Securities 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 twentieth 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 or other additional payment 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 Securities changes, the Securities 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 Floating Rate).

If a rate, spread or similar reference factor which corresponds to a particular term and which is required for a determination in respect of the Securities ceases to be available or published (such as the LIBOR® for a term of e.g. 4 months) and there is no successor for such reference factor, but reference factors for different terms continue to be available and published, the reference factor in question shall be calculated by linear interpolation of available reference factors which correspond to the next longer and shorter term.

6 Settlement Disruption Event

In case an event beyond the control of the Issuer and/or the Paying Agent occurs as a result of which the Issuer and/or the Paying Agent cannot or is not allowed to make (a) a payment and/or (b) 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 (each such event, a "**Settlement Disruption Event**") and if such event is continuing on a date on which a payment or delivery is due to be made, such payment or delivery shall be postponed to the first Business Day following the day on which the Settlement Disruption Event ceases to continue. Any such postponement of payment or delivery due to a Settlement Disruption Event shall not constitute a default by the Issuer and the Securityholders shall not be entitled to any default interest or other additional payment 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 Securities in such way as it is reasonably practicable in lieu of a settlement as described above.

Upon the occurrence of a Settlement Disruption Event, the Issuer or the Paying Agent shall give a notice to the Securityholders stating that a Settlement Disruption Event has occurred and providing details thereof. Failure of the Issuer or the Paying Agent to provide the Securityholders 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 Securityholders and the Issuer. The Securityholders 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 Securities, 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 Securities.

8 Taxation

Each Securityholder 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 Securityholder in any jurisdiction or by any governmental or regulatory authority. Neither the Issuer nor the Nominee (if any) or any other Agent is obliged to gross up any payments in respect of the Securities and shall have the right, but not the obligation, to withhold or deduct from any amounts payable to the Securityholders 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 Securityholder shall promptly reimburse the Issuer.

Securityholders 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 Securities).

9 Events of Default

If any of the following events (each an "**Event of Default**") occurs, any Securityholder may by written notice to the Issuer declare the Securities held by such Securityholder to be forthwith due and payable, whereupon the Early Redemption Amount of such Securities 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 calendar days in the payment of any principal or interest due in respect of the Securities; or
- (b) an order is made by any competent court or other competent 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 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 Securities 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
1 Finsbury Avenue
GB-London EC2M 2PP

Calculation Agent:

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

or

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

or

UBS AG, acting through its 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 and (b) so long as the Securities 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 Securityholders.

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 Securityholder.

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 Securityholders hereby irrevocably agree in advance that the Issuer may without any further prior consent of any Securityholder at any time, substitute for itself as the principal debtor in respect of the Securities (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 Securityholders under or in relation to the Securities 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 Securities 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 Securityholder 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.

Any substitution shall as soon as reasonably possible be notified to the Securityholders and, if applicable, to 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 (including, but not limited to, any tax consequences) suffered by individual Securityholders as a result of the exercise of such right and, accordingly, no Securityholder 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 sole 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 Nominee (if any), any other Agent and the Securityholders.

None of the Calculation Agent, the Issuer, the Nominee (if any) or any other 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 Securities, whether caused by negligence or otherwise (other than gross negligence or willful

misconduct). Further, the Securityholders 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 the underlying(s) of the Securities (if any).

For the purposes of any calculation required pursuant to the relevant Final Terms or these General Terms and Conditions, (unless otherwise specified), (a) 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); (b) 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 (c) 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 case of JPY, which shall be rounded down to the nearest JPY. 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 Securities by the Issuer

The Issuer may from time to time without the consent of the Securityholders create or issue further tranches of securities, which shall be fungible with the Securities (*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 Interest Payment Date)) so as to be consolidated and form a single series with such Securities, and references to "Securities" shall be construed accordingly. The further tranche of securities may have a Security Number which is different from the Security Number for the Securities.

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

All Securities 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 Securityholders in accordance with this section III. 16.

16.2 Notices to the Securityholders

Unless otherwise stated in the relevant Final Terms, all notices in connection with the Securities 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 Securities shall be published on the internet on website <http://www.ubs.com/quotes> and, for clients outside the United Kingdom, on website <http://www.ubs.com/keyinvest> (or any successor websites thereto). Any notice so given will be deemed to have been validly given on the date of such publication (or, if published more than once, on the date of the first 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 Securityholders, provided that, so long as any Securities are listed on the Relevant Stock Exchange, the rules of the Relevant Stock Exchange permit such form of

notice. Any such notice shall be deemed to have been given to the Securityholders 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 Securityholders 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 if, in the absence of such correction, the relevant Final Terms or these General Terms and Conditions would not represent the intended terms of the Securities on which the Securities were sold and have since traded; or
- (f) will not materially adversely affect the interests of the Securityholders.

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 Securityholders, and shall be notified to the Securityholders (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 Securities shall be subject to, governed by and construed in accordance with **Swiss law**.

The exclusive place of jurisdiction for any legal action or dispute relating to the Securities 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 Securities, if printed, and their subsequent replacement.

IV. Definitions

"**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.

"**Automatic Early Redemption Requirement**" means the automatic early redemption requirement specified in the relevant Final Terms (if applicable).

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

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

"**Breakage Costs**" means the amount of losses or costs of the Issuer that are or would be incurred following the occurrence of 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 Securities but for the occurrence of the Early Redemption Event.

"**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 day 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.

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

"**Change in Law**" means that, on or after the Issue Date of the Securities (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 Securities 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 Securities (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 (and any successor thereto).

"**Clearstream Luxembourg**" means Clearstream Banking *société anonyme* (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.

"**Day Count Fraction**" means the day count fraction specified in the relevant Final Terms and described in section II. 1.5 (*Day Count Fraction and Business Day Convention*).

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

"**Delivery Expenses**" has the meaning ascribed to it in section III. 3 (*Payments and Deliveries*).

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

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

"**Early Redemption Date**" has the meaning ascribed to it in section II. 3.5 (*Early Redemption*).

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

"**EEA**" means the European Economic Area.

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

"**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*).

"**FATCA**" has the meaning ascribed to it in section V. 5.19 (*Risks relating to U.S. Foreign Account Tax Compliance Withholding*).

"**FFI**" has the meaning ascribed to it in section V. 5.19 (*Risks relating to U.S. Foreign Account Tax Compliance Withholding*).

"**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.

"**Floating Rate**" means (a) CHF LIBOR; (b) CZK PRIBOR; (c) EUR LIBOR; (d) EURIBOR; (e) GBP LIBOR; (f) HKD HIBOR; (g) JPY LIBOR; (h) NOK NIBOR; (i) PLZ WIBOR; (j) SGD SOR; (k) USD LIBOR; (l) ZAR JIBAR, as specified and defined in the relevant Final Terms, or any other rate specified in the relevant Final Terms.

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

"**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 Securities, 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 Securities, 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.

"**Index Sponsor**" means the index sponsor specified in the relevant Final Terms (if applicable).

"**Interest Amount**" has the meaning ascribed to it in section II. 1.3 (*Interest Amount*).

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

"**Interest Payment Date**" means each of the interest payment dates specified in the relevant Final Terms (if applicable).

"**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 Interest Payment Date and each period beginning on (and including) one Interest Payment Date and ending on (but excluding) the next Interest Payment Date (as specified in the relevant Final Terms), provided that if the relevant Final Terms specifies "Unadjusted" as applicable, the Interest Payment Dates and 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. 1.5 (*Day Count Fraction and Business Day Convention*)).

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

"**IRS**" has the meaning ascribed to it in section V. 5.19 (*Risks relating to U.S. Foreign Account Tax Compliance Withholding*).

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

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

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

"**JPY**" means Japanese yen.

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

"**Maturity Date**" means the maturity date of the Securities specified in the relevant Final Terms.

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

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

"**Nominee**" means the nominee of the Issuer (if any) specified in the relevant Final Terms.

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

"**Paying Agent**" means the paying agent specified in the relevant Final Terms.

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

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

"**Redemption Amount**" means the (final) redemption amount per Security payable to the Securityholders on the Maturity Date as specified in the relevant Final Terms.

"**Reference Banks**" has the meaning ascribed to it in section II. 2 (*Floating Rate*).

"**Relevant Stock Exchange**" means the stock exchange where the Securities are listed (if any) as set out in the relevant Final Terms.

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

"**RWA**" means risk-weighted assets.

"**Securities** or **Security**" has the meaning ascribed to it in section I. (*Preliminary Remarks*).

"**Securityholder(s)**" or "**Investor(s)**" means an investor or the investors in the Securities.

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

"**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**" has the meaning ascribed to it in section III. 6 (*Settlement Disruption Event*).

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

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

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

"**Tax Event**" means that the Issuer (a) on the occasion of a payment or delivery due under the Securities, 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.

"**Underlying(s)**" means the underlying or underlyings referenced by the Securities, as specified in the relevant Final Terms in section 'Underlying'.

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

V. Risk Factors

An investment in the Securities involves certain risks. Generally, an investment in structured products involves higher risks than an investment in similar products which do not provide for any structured features. If one or more of the risks described below occurs, Securityholders may incur a partial or even a total loss of their invested capital. Potential Securityholders should be familiar with instruments having the characteristics of the Securities and interest 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 Securityholder should carefully evaluate the merits and risks of the investment in the Securities in the context of its particular financial situation and the impact the Securities 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 Securities. 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 Securityholder should, prior to a purchase of the Securities, 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 Securities (a) is fully consistent with its financial needs, objectives and conditions, (b) is a fit, proper and suitable investment for it (including, without limitation, taking into account applicable selling restrictions), (c) has been duly approved in accordance with all applicable laws, regulations and procedures and (d) 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. In addition, potential Securityholders 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 Securities.

1 Risk Factors associated with certain features of the Securities

1.1 Risks related to Securities with a Fixed Coupon

A holder of a Security with a fixed coupon is exposed to the risk that the price of such Security falls as a result of changes in the market interest rates. While the nominal interest rate of a Security with a fixed coupon is fixed during the life of such Security, the market interest rates typically change on a daily basis. As the market interest rates change, the price of a Securities with a fixed coupon also changes, but in the opposite direction. If the market interest rates increase, the price of a Security with a fixed coupon typically falls.

1.2 Risks related to Securities with a Floating Coupon

A key difference between Securities with one or more interest payments based on a floating rate and Securities with interest payments based only on a fixed rate is that the interest payments based on a floating rate cannot be anticipated prior to the applicable fixing date with respect to the floating 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, Securityholders are not able to determine a definite yield at the time they purchase Securities with a floating coupon, which means that their return on investment cannot be compared to that of investments having fixed interest rates.

Future levels of floating 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 floating rate. Such factors affecting the levels of a floating rate may adversely affect the return (if any) on Securities

with a floating coupon. Depending upon the development of the floating rate(s), it is possible that the applicable fixing for one or more Interest Periods during the term of the Securities with a floating coupon 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 floating rate could be as little as zero.

1.3 Risks related to Reverse Floating Rate Securities

The interest income from reverse floating rate Securities is calculated in reverse proportion to the floating rate: if the floating rate increases, interest income decreases, whereas it increases if the floating rate decreases. This leads to the fact that in case the floating rate increases, the effective return as well as the market value of the Securities will decline. In this case, the decline in the market value is substantially sharper than the decline in the market value of Securities with a fixed coupon having a similar maturity.

1.4 Risks related to Securities with a Fixed to Floating Coupon

Securities with a fixed to floating coupon bear interest at a rate that the Issuer may elect to convert or will automatically convert from a fixed rate to a floating rate. If a conversion from a fixed rate to a floating rate takes place, the spread on the Securities with a fixed to floating coupon may be less favourable than the prevailing spreads on comparable securities with a floating coupon relating to the same floating rate. In addition, the new floating rate at any time may be lower than the interest rates payable on other Securities. As long as the interest of Securities with a fixed to floating coupon is fixed, the market value of such Securities declines in case market interest rates increase.

1.5 Risks related to Securities with Ratchet Mechanism

Securities with a ratchet mechanism are securities which do not provide for a predetermined interest rate because the interest rate is calculated depending on the interest rate calculated for a preceding interest period. Therefore, the Securityholder is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of Securities with a ratchet mechanism in advance. Since the final redemption amount of Securities with a ratchet mechanism may be related to the cumulative performance of a number of features, the Securityholder may not rely on compensating any losses from low interest rates by a final redemption amount which is higher than the specified denomination of the Securities.

1.6 Risk related to Securities linked to a CMS Spread

The relevant Final Terms of Securities linked to a CMS spread may provide for a variable interest rate (except for a possible agreed fixed rate payable to the extent provided for in such Final Terms) which is dependent on the difference between rates for swaps having necessarily different terms. Investors purchasing Securities linked to a CMS spread expect that, during the term of such Securities, the interest curve will not, or only moderately, flatten out. In the event that the market does not develop as anticipated by the Securityholders and that the difference between rates for swaps having different terms decreases to a greater extent than anticipated, the interest rate payable on the Securities linked to a CMS spread will be lower than the interest level prevailing as at the date of purchase. In a worst case scenario, no interest will be payable. In such cases, the price of the Securities linked to a CMS spread will also decline during the term.

1.7 Risk related to Range Accrual Securities

The relevant Final Terms of range accrual Securities may provide for the interest payable (except for a possible agreed fixed rate payable to the extent provided for in such Final Terms) to be dependent on the number of days during which the floating rate specified in the relevant Final Terms is within a certain interest range. The interest payable on range accrual Securities decreases depending on the number of determination dates during which the floating rate remains

outside the interest range. No interest may be payable in the event that the floating rate increases or decreases significantly and remains outside the interest range throughout an entire Interest Period. Furthermore, in case of changes in the level of the floating rate which lead to the expectation that all or most of the future levels of the floating rate will be outside of the relevant interest range, the market value of range accrual Securities may drop significantly and/or be more volatile.

As the interest payable is calculated by reference to the floating rate, the Securityholders are subjected to interest rate fluctuations, and the amount of interest income is uncertain. Owing to the fluctuations in the floating rate, it is impossible to calculate the interest income and the yield for the entire term in advance.

1.8 Risk related to Securities with a Zero Coupon Structure

Securities with a zero coupon structure do not pay current interest but are typically issued at a discount from their specified denomination. Instead of periodical interest payments, the difference between the redemption amount and the Issue Price constitutes interest income until maturity and reflects the market interest rate. A holder of a Security with a zero coupon structure is exposed to the risk that the price of such Security falls as a result of changes in the market interest rate.

1.9 Risk related to Securities linked to an Index or Future(s)

Securities linked to an index or future are debt securities which do not provide for predetermined redemption amounts and/or interest payments but amounts due in respect of principal and/or interest will be dependent upon the performance of an index or underlying future(s), which itself/themselves may contain substantial credit, interest rate or other risks. The redemption amount and/or interest, if any, payable by the Issuer might be substantially less than the Issue Price or, as the case may be, the purchase price invested by the Securityholder and may even be zero in which case the Securityholder may lose his entire investment.

Securities linked to an index or future are not in any way sponsored, endorsed, sold or promoted by a sponsor or the respective administrator, promoter or licensor (with respect to Securities linked to an index only) of the index or the future(s) and such persons make no warranty or representation whatsoever, express or implied, either as to the results to be obtained from the use of the index or future(s) and/or the figure at which the index or future(s) stands at any particular time. None of the sponsors or the respective administrator or promoter or licensor (with respect to Securities linked to an index only) is responsible for or has participated in the determination of the timing of, prices at, or quantities of the Securities to be issued or in determination or calculation of the equation by which the Securities settle into cash.

None of sponsors or the respective administrator or promoter or licensor (with respect to Securities linked to an index only) has any obligation or liability in connection with the administration, marketing or trading of the Securities. The sponsors or the respective administrator or promoter or licensor (with respect to Securities linked to an index only) of the index or the future(s) have no responsibility for any calculation agency adjustment made for the index or the future(s). Hence, potential Securityholders do not have a claim against any sponsor, respective administrator or promoter or licensor (with respect to Securities linked to an index only) in case of an error of the calculation of the index or future(s) or any adjustment of an index or future calculation or for any other reason.

1.10 Risk related to Securities linked to Equity or Bonds

Securities linked to equity or bonds are debt securities which do not provide for predetermined redemption amounts and/or interest payments. Redemption amounts and/or interest payments will depend on the market value of the underlying securities which might be substantially less than the Issue Price or, as the case may be, the purchase price invested by the Securityholder and may even be zero in which case the Securityholder may lose his entire investment. If the underlying securities are to be delivered instead of cash redemption, the value of such securities may also be substantially less than the Issue Price or, as the case may be, the purchase price invested by the Securityholder.

Securities linked to equity or bonds are not in any way sponsored, endorsed, sold or promoted by the issuer of the underlying securities and such issuer makes no warranty or representation whatsoever express or implied, as to the future performance of the underlying securities. Furthermore, the issuer of the underlying securities does not assume any obligations to take the interests of the Issuer or those of the Securityholders into consideration for any reason. None of the issuers of the underlying securities will receive any of the proceeds of the offering of the Securities made hereby and is responsible for, and has participated in, the determination of the timing of, prices for or quantities of, the Securities. The investment in the Securities does not result in any right to receive information from the issuer of the underlying securities, to exercise voting rights or to receive distributions on the underlying securities. Hence, potential Securityholders do not have a claim against any issuer of the underlying securities for any reason.

1.11 Risks related to Securities whose Profit Potential is Capped

Potential holders of Securities which provide for a floating interest rate that is capped should be aware that the profit potential in relation to such Securities is capped and that the market value of such Securities will fall if the market interest rates increase.

1.12 Risks related to an Issuer's Call Option

In case of Securities which provide for an Issuer call option, the Issuer is entitled to redeem the Securities in whole but not in part prior to the maturity date. The Issuer is likely to exercise its option when its total cost of borrowing is lower than the yield on such Securities. As a result, (a) the market value of such Securities generally will not rise substantially above the optional early redemption price and (b) holders of such Securities may incur additional transaction costs as a consequence of reinvesting proceeds received upon early redemption and such reinvestment may be on less favourable terms than the relevant Securityholder's initial investment in the Securities.

1.13 Risks related to Physical Delivery of Assets

In case of Securities which provide for a physical delivery of an asset or assets, Securityholders should be aware that such physical delivery may have unfavourable tax or other financial consequences. Furthermore, it may be prohibited or restricted for certain Securityholders to directly hold and/or sell any of the assets to be delivered according to the terms of the Securities. Neither the Issuer nor any other Agent assumes any responsibility to monitor, anticipate or control whether a specific Securityholder is entitled to hold and/or sell any of the assets to be delivered according to the terms of the Securities and shall not be liable for any damages that may occur due to the holding or on-selling of any of such assets or such delivery.

1.14 Risks related to Multipliers or Leverage Factors

In case a formula used to determine an amount payable and/or the quantity/value of an asset or assets to be delivered under the Securities contains a multiplier or leverage factor (whether implicit or explicit) greater than one, then the percentage change in the value of the Securities will be greater than any positive and/or negative performance of the determinant(s) used in such formula to determine the amount payable and/or the quantity/value of an asset or assets to be delivered under the Securities. Securities which include such a multiplier or leverage factor represent a very speculative and risky form of investment, since any loss in the value of the relevant determinant(s) carries the risk of a correspondingly higher loss on the Securities. Furthermore, the market value of such Securities is generally more volatile.

In case a formula used to determine the amount payable and/or the quantity/value of an asset or assets to be delivered under the Securities contains an explicit or implicit multiplier or leverage factor of less than one, then the percentage change in the value of the Securities will be less than any positive and/or negative performance of the determinant(s) used in such formula to determine the amount payable and/or the quantity/value of an asset or assets to be delivered under the Securities. Securities which include such a multiplier or leverage factor will not benefit from the full extent of

any gain in the value of the relevant determinant(s). Furthermore, the market value of such Securities is generally more volatile.

Warrants in particular are exposed to a high leverage as their issue or purchase price is generally a fraction of the calculation amount. This means that any percentage change in the underlying reference rate, floating rate or price will result in a multiple percentage change in the value of the warrant. Consequently, the market value of warrants is significantly more volatile than the market value of non-leveraged products.

2 Market Risk Factors

2.1 Volatility of the Value of the Securities

The market value of, and return on, the Securities 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 Securities to fall significantly and/or cause substantial volatility in the value of the Securities. These factors include, without limitation, the following:

- (a) **Credit spread and creditworthiness of the Issuer:** If the creditworthiness of the Issuer deteriorates, the credit spread of the Issuer generally increases, which will reduce the value of the Securities. For instance, a deterioration in the credit rating of the Issuer will most likely result in an increase in the credit spreads of the Issuer and thus have a negative impact on the market value of the Securities. The credit spread of the Issuer may also increase for a variety of other reasons, including general developments in the credit markets or political developments in the region or country the Issuer is located or doing business, which may not be foreseeable on the trade date or the issue date;
- (b) **Interest rates:** Changes in interest rates generally affect the market value of financial instruments such as the Securities. For instance, if interest rates rise, the market value of securities with a fixed coupon and securities with a floating coupon and a cap will fall;
- (c) **Remaining time to maturity:** Generally, the longer the time-to-maturity of the Securities, the greater the impact of changes in interest rates, credit spreads and other factors on the market value of the Securities and thus the greater its volatility;
- (d) **Liquidity:** In situations where the liquidity of the financial markets in general or in respect of the Issuer decreases, the bid/offer spreads in financial instruments are increasing and the market value of the Securities is expected to fall;
- (e) **Supply and demand:** Supply and demand for the Securities and for obligations of or exposure to the Issuer (including inventory positions of any market maker) may impact the value of the Securities. In particular, if the supply increases and/or the demand falls, the market value of the Securities is expected to fall;
- (f) **Economic, financial, political or regulatory events or judicial decisions** that affect the Issuer or the financial markets generally.

As a general rule, the market value of structured products is more volatile than the market value of comparable investments that do not provide for any structured features.

In the ordinary course of their businesses, the Issuer and its Affiliates may from time to time express views on expected movements in the underlying or one or more of these factors. These views are sometimes communicated to customers of the Issuer or its Affiliates. 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. Securityholders should derive information about the financial markets from multiple sources and should investigate the financial markets. Securityholders 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.

Securityholders 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 Securities. Any of these activities may affect the market value of the Securities.

2.2 No Secondary Market and no or limited liquidity

Potential Securityholders should note that there is generally no secondary market for the Securities 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 for securities issued by itself or an Affiliate. Therefore potential Securityholders should only make an investment therein if they can hold the Securities until their maturity date and do not need to be able to sell them prior to their maturity date. Securityholders should also be aware of the circumstance that pricing information regarding the Securities may be difficult to obtain due to the non-existence of a secondary market.

In case a Securityholder is able to observe a secondary market or the Issuer and/or one of its Affiliates chooses to provide liquidity by means of bid and/or offer prices for the Securities, even though it is under no legal obligation to do so, the spread between the bid and offer prices may vary and may be significantly expanded. Consequently, if Securityholders are able to sell their Securities, 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 Securityholders. Finally, if secondary market prices are provided by the Issuer and/or one of its Affiliates as well as third party dealers, the bid and/or offer prices offered by such third party dealers may be significantly different (higher or lower) from any prices quoted by the Issuer or one of its Affiliates.

2.3 Commission, Fees and other Costs affecting the value of the Securities

The issue price of the Securities may include amounts in respect of certain commissions paid with respect to the distribution of the Securities, together with certain fees and costs (including, but not limited to, hedging 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 Securities 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, is likely to be widened as a result of the commission, fees, costs and projected profit included in the original issue price.

2.4 Secondary Market Prices differ from values of Pricing Models and/or Valuations

If a Securityholder receives a bid price for the Securities, 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 Securityholders (which may or may not be based on such models), Securityholders should not assume that they will be able to dispose the Securities at prices equal or close to such valuation.

2.5 Price Source and Settlement Disruption Events

The Securities 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 Securities; and/or
- (b) a determination of payments under the Securities based on parameters or information not provided for in the Product Documentation which are applied by the Calculation Agent in its sole discretion; and/or
- (c) a redemption of the Securities 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 cash settlement or *vice versa*),

and may in turn have an adverse effect on the value of the Securities. Neither the Issuer nor the Calculation Agent has any liability *vis-à-vis* the Securityholders 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, source, content, composition, constitution or administrator of a rate, quote, price or other information that is required to make a determination in respect of the Securities may change. In such case, the Calculation Agent may reasonably determine a successor 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 or alternative for such rate, quote, price or other information may have an adverse effect on the value of the Securities. Any such determination made by the Calculation Agent is binding and the Calculation Agent does not have any liability in respect thereof.

3 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 Issuer'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 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.

3.1 General insolvency risk

Each Securityholder bears the general risk that the financial situation of the Issuer could deteriorate. Unless otherwise stated in the relevant Final Terms, the Securities 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 Securities are not covered by a deposit guarantee or a compensation scheme. In case of an insolvency of the Issuer, Securityholders will suffer a substantial loss or even a total loss of their initial investment in the Securities.

3.2 Restructuring or insolvency proceedings opened by FINMA

Pursuant to article 25 *et seq.* of the Swiss Banking Act, FINMA has broad statutory powers to take measures and actions in relation to the Issuer if it is (a) overindebted; (b) has serious liquidity problems; or (c) fails to fulfil the applicable adequacy provisions after expiry of a deadline set by FINMA. If one of these prerequisites is met, FINMA is authorized (i) to open restructuring proceedings (*Sanierungsverfahren*); or (ii) to open liquidation (bankruptcy) proceedings (*Bankenkonkurs*); and/or (iii) impose protective measures (*Schutzmassnahmen*) in relation to the Issuer. The Swiss Banking Act 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 Securities) into equity; and/or (c) potentially haircuts on obligations of the Issuer (including its obligations under the Securities).

3.3 Creditworthiness of the Issuer

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

- (a) **Credit ratings:** Rating agencies such as Standard & Poor's, Fitch and Moody's assign ratings to the Issuer and its Affiliates. Any downgrade of the Issuer's or any of its Affiliates' rating may negatively affect the perception of the Issuer's creditworthiness;
- (b) **Regulatory and legislative changes:** The Issuer's creditworthiness may be negatively affected by regulatory and/or legislative changes affecting financial institutions. These may include measures such as (but not limited to) requirements to adopt structural and other changes designed to reduce systemic risk and to make major financial institutions easier to wind down or break up;
- (c) **Reputation of the Issuer:** The occurrence of an event or circumstance which leads to a reputational damage for the Issuer will negatively affect the business and prospects of the Issuer and therefore may have an adverse effect on the Issuer's (current or future) creditworthiness;
- (d) **Capital strength of the Issuer:** The capital strength of the Issuer is measured by the BIS tier 1 ratio and total capital ratios and determined by RWA and eligible capital. Both RWA and eligible capital are subject to change and could be reduced, *inter alia*, if the Issuer 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 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, changes in applicable tax laws, 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 for the Securities;
- (l) **Operational risks:** The Issuer's operational risk management and control systems 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 successfully carry on its business 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 as 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.

Any combination of such risk factors may have a magnified negative effect on the creditworthiness of the Issuer and therefore the value of the Securities.

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

4 Risk Factors relating to Potential Conflicts of Interest

4.1 Participation in transactions related to the Securities

In the ordinary course of its business, the Issuer and any of its Affiliates may participate in transactions including, without limitation, derivative transactions which may affect the Securities in some way, for their own account or for account of a customer. Furthermore, the Issuer and/or any of its Affiliates may enter into transactions which hedge any exposure the Issuer may have stemming from the Securities. Any such transaction may adversely affect the value, performance, liquidity, cash flows or any other aspect of the Securities. As a result, conflicts of interest may arise between Affiliates of the Issuer, as well as between these Affiliates or the Issuer and the Securityholders. The Issuer or any of its Affiliates will not take into account the interests of the Securityholders and will act in such a way as if the Securities were not existing.

Furthermore, the Issuer and its Affiliates may

- (a) issue, market or sell other financial instruments, the introduction of which may negatively affect the value, performance, liquidity, cash flows or any other aspect of the Securities;
- (b) whether by virtue of the types of relationships described herein or otherwise, at any time, be in possession of information that is or may be material in the context of the Securities and that may or may not be publicly available or known to the Securityholders, and the Securities do not create any obligation on the part of the Issuer or its Affiliates to disclose to any Securityholder any such information (whether or not confidential);
- (c) publish research reports which may relate to any aspect or feature of the Securities;
- (d) in case the relevant Security influences or relates to any other financial instrument (such as, but not limited to, bonds, loans or shares), when holding such financial instruments, exercise their voting rights with respect to such financial instruments and engage in any kind of commercial or investment banking or other business with the issuer(s) and/or obligor(s) of such financial instruments 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 Securityholders and its or their actions might have an adverse effect on the position of any Securityholder. In any case, neither the Issuer nor any of its Affiliates is obliged to take into account the interests of the Securityholders and neither the Issuer nor any of its Affiliates are liable for any loss incurred by Securityholders.

4.2 Issuer acting as Calculation Agent under the Securities

The Issuer or one of its Affiliates will act as Calculation Agent under the Securities. In performing its duties in its capacity as Calculation Agent, the Issuer (or such Affiliate) may have interests adverse to the interests of the Securityholders, and this may adversely affect the value, performance, liquidity, cash flows or any other aspect of the Securities and ultimately the Securityholders' return on the Securities (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 Securities, such as Paying Agent and/or Index Sponsor (as specified in the relevant Final Terms).

4.3 Distributors or other entities involved in the offering or listing of the Securities

Potential conflicts of interest may arise in connection with the Securities if a distributor placing the Securities or other entity involved in the offering or listing of the Securities 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 Securities.

4.4 The Issuer as participant in dealer polls or other contributor to benchmark fixings

Potential Securityholders should note that the Issuer and certain of its Affiliates are regular participants in dealer polls and contributors to benchmark fixings. In providing such quotes or contributions, the Issuer will not take into account the existence of the Securities or the interests of the Securityholders.

5 Risk Factors relating to the Investment in the Securities in General

5.1 The Securities are not subject to a government guarantee or government compensation or insurance scheme

An investment in the Securities 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 Securities do not have the benefit of any government guarantee. The Securities are obligations of the Issuer only and Securityholders must look solely to the Issuer for the performance of the Issuer's obligations under the Securities. In the event of the insolvency of the Issuer, a Securityholder may lose all or some of its investment therein (see section V. 3.1 (*General insolvency risk*) above).

5.2 Determinations by the Calculation Agent

The Calculation Agent has broad discretionary authority to make various determinations and adjustments under the Securities, 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 Securityholders.

5.3 Amendments of Product Documentation without the consent of the Securityholders

The Issuer is entitled to modify or amend the relevant Final Terms or these General Terms and Conditions from time to time without the consent of the Securityholders provided that the modifications or amendments fulfil certain requirements as set out in section III. 17 (*Severability and Amendments*).

5.4 Possible Exposure to Exchange Rate Risks

The settlement currency of the Securities may not be the currency of the home jurisdiction of an investor therein. In this case, the relevant investor is exposed to the risk that the exchange rate in respect of the settlement currency deteriorates. Such deterioration, on the other hand, has an adverse effect on the return of the Securities in the currency of the home jurisdiction of the investor.

Where the calculation of any amount payable under the Securities involves a currency conversion, fluctuations in the relevant exchange rate will directly affect the market value and return of the Securities and create a loss to the investor.

5.5 Determinations in respect of the Securities

There may be no centralized market for reference rates, floating rates or amounts in respect of the Securities (including, but not limited to, foreign exchange rates, interest rates, forward rates or other financial factors). The Calculation Agent will determine, if applicable, the relevant rates or amounts by reference to internal market data, Bloomberg, Reuters or other electronic data providers available at the relevant time or based on hedging transactions traded by the Issuer and its Affiliates. Due to the potentially high volatility in such rates or amounts, they may have been determined at a time at which it was disadvantageous to the interests of the Securityholders. Neither the Calculation Agent nor the Issuer has any obligation or responsibility *vis-à-vis* the Securityholders in this respect and the Calculation Agent will not review any other source of information.

5.6 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 Securities will be. If the inflation rate is equal to or higher than the yield under the Securities, the real yield on the Securities will be zero or even negative. Further, the real economic value of the redemption amount will be influenced by the rate of inflation and the term of the Securities. Consequently, the higher the rate of inflation and the longer the term of the Securities, the lower the real economic value of the redemption amount will be.

5.7 Effect of Transaction Costs and Charges

When the Securities are issued or sold, several types of incidental costs, fees, commissions and profits are included in the purchase price of the Securities. Such costs and fees 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 Securities; (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 Securities (including, without limitation, costs for external legal and tax advice). Such costs reduce the value of the Securities in the sense that a potential bid price will exclude such costs and therefore is likely to be lower than the Issue Price or offer price of the Securities.

5.8 Reinvestment Risk

Potential Securityholders may be exposed to risks connected to the reinvestment of cash resources freed from the Securities, in particular as the result of an early or optional redemption of the Securities. The return a Securityholder will receive depends not only on the market value of, and payments (or other benefits) to be received under, the Securities, 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 terms of the Securities.

5.9 Cashflow Risk

In general, the Securities provide a certain cash flow. These General Terms and Conditions and the relevant Final Terms set forth under which conditions, on which dates and in which amounts interest and/or redemption amounts is/are paid. In the event that the agreed conditions do not occur, the actual cash flows may differ from those expected.

5.10 Settlement Risk

Securityholders must rely on the procedures and rules of the relevant clearing system(s) for transfers, payments, deliveries or communications with the Issuer. In case of technical errors or due to other reasons, payments, deliveries or communications under the Securities may be delayed or may not occur. The Issuer does not take any responsibility for any technical errors, misconduct or failures due to any other reasons of the clearing system or any other third party and for any losses incurred by a Securityholder as a result of such failures (including, without limitation, failures to pay any amounts or deliver any asset(s) due under the Securities or to deliver notices from the Issuer to the Securityholders). Furthermore, the Issuer is discharged from any payment or delivery obligations under the Securities by payment or delivery to, or to the order of, the relevant clearing system(s) or intermediary/-ies. Therefore, Securityholders bear the risk of failures in settlement of the Securities.

5.11 Protection Amount

If and to the extent that a capital protection has been declared applicable in the relevant Final Terms, the Securities will be redeemed for an amount no less than the specified protection at the scheduled maturity date. A capital protection may apply at a level below, at, or above the specified denomination of the Securities. The capital protection, if any, does not apply if the Securities are redeemed prior to their scheduled redemption date (e.g. due to the occurrence of an early redemption event) or upon the occurrence of a price source disruption event or a settlement disruption event. If no capital protection is applicable, the full amount invested by the Securityholders may be lost. Even if capital protection applies, the payment of the protection amount is always subject to the solvency of the Issuer.

5.12 Methodological change or discontinuance of the determination of Reference Rate(s) or Floating Rate(s)

The levels of reference rates and floating rates (such as, but not limited to, EURIBOR®, LIBOR® or ISDAFIX swap 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 or floating rate can modify the calculation method for determining such level or make other methodological changes that could affect any determination or cash flow under the Securities. Such entity may also alter, discontinue or suspend calculation or dissemination of the reference rate or floating rate. It is not involved in the offer and sale of the Securities and has no obligation to invest therein. Finally, such entity publishing the level of a reference rate or floating rate may take any actions in respect of the reference rate or floating rate without regard to the interests of the Securityholders, and any of these actions could adversely affect the market value of the Securities.

Any contribution of information by the Issuer or any of its Affiliates to the organization(s) determining the fixing of a reference rate or floating rate is based on the Issuer's or its Affiliates' discretion and such view and information that

the Issuer or its Affiliates have available at such time. Neither the Issuer nor any of its Affiliates has any responsibility in taking into account the interests of the Securityholders.

5.13 Historical performance should not be taken as Indication for future performance

The historical performance of any reference rate, floating rate, price or other financial factor that influences the performance of the Securities should not be taken as an indication of the future levels of such factor during the term of the Securities. Changes in the level of such factors may affect the value of the Securities, but it is impossible to predict whether the level of such factors will rise or fall.

5.14 Purchase of Securities on Credit

Securityholders financing the purchase of the Securities 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 Securities, but also have to pay interest on the loan as well as repay the principal amount. It is therefore imperative that Securityholders 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.

5.15 Time Lags

There will be a time lag between the time a Securityholder or the Issuer exercises its redemption option (if the relevant Final Terms of the Securities provide for such option) and the time the applicable redemption amount or deliverable asset(s) relating to such exercise is determined, and during such time lag the redemption amount or the value of the deliverable asset(s) may decrease due to market moves or other reasons, as the case may be. Furthermore, there will be an additional time lag until the payment of the redemption amount or actual delivery of the asset(s), and during such time lag the applicable redemption amount or value of the asset(s) to be delivered may decrease further.

5.16 Effect of Hedging Transactions by the Issuer on the Securities

The Issuer may use a portion of the total proceeds from the sale of the Securities for transactions to hedge the risks of the Issuer relating to the Securities. In such case, the Issuer or one of its Affiliates may (but is under no obligation to) conclude transactions that correspond to the obligations of the Issuer under the Securities. Furthermore, on or before any date on which certain determinations pursuant to the terms and conditions applicable to the Securities will be made, the Issuer or one of its Affiliates may close out any such hedging transactions or enter into further hedging transactions. It cannot be ruled out that (a) such determinations will be influenced by such hedging transactions or close-outs of such transactions and (b) entering into or closing out such hedging transactions may influence the value, performance, liquidity or cash flows of the Securities. If an early redemption 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 of the Securities and thus be borne by the Securityholders.

5.17 Limited Ability for Securityholders to hedge the risks of the Securities

The ability to eliminate or to restrict the initial risks of the Securities 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 Securities and potential Securityholders should not rely on the ability to conclude such hedging transactions during the term of the Securities. In case a hedging transaction can be entered into, it is possible that such transaction can only be concluded at unfavourable market prices, resulting in a corresponding loss for the Securityholder. Furthermore, in such case, the Securityholder may not be able to enter into transactions which offset the risks on a 1:1 basis.

5.18 Change of Law and Legality of Purchase

The Securities 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 Securities. Furthermore, the Issuer has and assumes no responsibility for the lawfulness of the acquisition of the Securities by Securityholders or prospective purchasers of the Securities, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for the compliance by Securityholders with any law, regulation or regulatory policy applicable to them.

5.19 Taxation

All payments in respect of the Securities are subject to any applicable fiscal or other laws, regulations and directives. Potential Securityholders 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 Securities are transferred, the country in which the Securityholder 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 Securities.

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 Securities from a tax perspective, since the individual situation of each potential Securityholder 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 Securityholder should consult its own personal tax advisors before making any decision to purchase the Securities. The Issuer does not accept any liability for adverse tax consequences of an investment in the Securities. 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 Securities might not in the future become subject to withholding tax or other tax charges, or if the Securities are subject to withholding tax, the payments under the Securities 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 Securities, neither the Issuer nor any Paying Agent or any other person will gross-up such payments but may deduct such tax charges from the payment amounts. Each Securityholder therefore bears the full tax risk on the Securities.

In the Event that the Issuer

- (a) on the occasion of a payment or delivery due under the Securities, 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 Securities at the early redemption amount at any time on notice to the Securityholder (see section V. 5.21 (*Early Redemption Events*) below).

5.20 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 Securities 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 Securities 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 Securities is made, is not a participating FFI.

The application of FATCA to interest, principal or other amounts paid with respect to the Securities 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 Securities, the Issuer will have no obligation to pay additional amounts or otherwise indemnify a Securityholder 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 Securities 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. **Securityholders should, consequently, be aware that payments under the Securities may under certain circumstances be subject to U.S. withholding under FATCA.**

5.21 Early Redemption Events

Upon the occurrence of a Change in Law, Hedging Disruption, Increased Costs of Hedging or Tax Event (as specified in the relevant Final Terms and defined in section IV. (*Definitions*)), the Issuer may have the right to redeem the Securities in accordance with section II. 3.5 (*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 Securityholders will thereafter no longer be able to realise any expectations for a gain in the value of the Securities or a return from the Securities. Securityholders 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 Securities had been outstanding until their scheduled maturity date and no payments that would otherwise have been due after the early redemption date will be made. In particular, the amount to be received by the Securityholders will be reduced by any costs and/or losses incurred by the Issuer and/or the Calculation Agent as a result of occurrence of the relevant early redemption event.

5.22 Provision of Information

The Issuer, the Calculation Agent or any of their respective Affiliates may have acquired, or may during the term of the Securities acquire public or non-public information with respect to an underlying of the Securities that they may not disclose. Potential Securityholders must therefore make an investment decision based upon their own due diligence and purchase the Securities 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 make available (a) any information relating to the Securities other than as may be required by applicable rules and regulations relating to the Securities; or (b) any public or non-public information they may possess with respect to such underlying.

Any information with regard to an underlying contained in the Product Documentation consists of extracts from or summaries of information that is publicly available in respect of such underlying and is not necessarily the latest information available. The Issuer accepts responsibility for accurately reproducing publicly available information with regard to the relevant underlying in the Product Documentation. No further or other responsibility (express or implied) in respect of information relating to such underlying is accepted by the Issuer. The Issuer makes no representation that the information with regard to an underlying, any other publicly available information or any other publicly available documents regarding the underlying asset, index or other item(s) to which the Securities relate are accurate, complete and up-to-date.

There can be no assurance that all events occurring prior to the issue date or trade date of the Securities that could affect the trading price of the underlying asset, index or other item(s) to which the Securities relate (and therefore the trading price and value of the Securities) have been publicly disclosed. Subsequent disclosure of any such events or the disclosure or failure to disclose material future events concerning the underlying asset, index or other item(s) to which the Securities relate could affect the trading price and value of the Securities.

5.23 Rating of the Securities

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



APPENDIX 1: DESCRIPTION OF UBS AG



Description of UBS AG

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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, "UBS Group", "Group", "UBS" or "UBS Group AG (consolidated)") is committed to providing private, institutional and corporate clients worldwide, as well as retail clients in Switzerland, with superior financial advice and solutions, while generating attractive and sustainable returns for shareholders. UBS's strategy centers on its Wealth Management and Wealth Management Americas businesses and its leading (in its own opinion) universal bank in Switzerland, complemented by Asset Management and its Investment Bank. In UBS's opinion, these businesses share three key characteristics: they benefit from a strong competitive position in their targeted markets, are capital-efficient, and offer a superior structural growth and profitability outlook. UBS's strategy builds on the strengths of all of its businesses and focuses its efforts on areas in which UBS excels, while seeking to capitalize on the compelling growth prospects in the businesses and regions in which it operates. Capital strength is the foundation of UBS's success. The operational structure of the Group is comprised of the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, Retail & Corporate, Asset Management and the Investment Bank.

On 30 September 2015, UBS Group AG (consolidated) common equity tier 1 ("CET1") capital ratio¹ was 14.3% on a fully applied basis and 18.3% on a phase-in basis, invested assets stood at CHF 2,577 billion, equity attributable to UBS Group AG shareholders was CHF 54,077 million and market capitalization was CHF 69,324 million. On the same date, UBS employed 60,088 people².

On 30 September 2015, UBS AG (consolidated) CET1 capital ratio¹ was 15.3% on a fully applied basis and 18.3% on a phase-in basis, invested assets stood at CHF 2,577 billion and equity attributable to UBS AG shareholders was CHF 54,126 million. On the same date, UBS AG Group employed 58,502 people².

The rating agencies Standard & Poor's, Moody's, Fitch Ratings, and Scope Ratings have published credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to fulfill in a timely manner payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing. The ratings from Fitch Ratings, 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 long-term counterparty credit rating of A (outlook: positive) from Standard & Poor's, long-term senior debt rating of A2 (outlook: under review for possible upgrade) from Moody's, long-term issuer default rating of A (outlook: positive) from Fitch Ratings and issuer credit-strength rating of A (outlook: stable) from Scope Ratings.

The rating from Fitch Ratings has been issued by Fitch Ratings Limited, the rating from Standard & Poor's has been issued by Standard & Poor's Credit Market Services Europe Limited and the rating from Scope Ratings has been issued by Scope Ratings AG. All are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the

¹ 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 information provided on a fully applied basis entirely reflects the effects of prudential filters for the calculation of capital and does not include ineligible capital instruments. The information provided on a phase-in basis gradually reflects those effects and the phase-out of ineligible capital instruments during the transition period. For information as to how common equity tier 1 capital is calculated, refer to the section "Capital management" in the third quarter 2015 financial report of UBS Group AG.

² Full-time equivalents.

"CRA Regulation"). The rating from Moody's has been issued by Moody's Investors Service, Inc., which is not established in the EEA and is not certified under the CRA Regulation, but the rating it has issued is endorsed by Moody's Investors Service Ltd., a credit rating agency established in the EEA and registered under the CRA Regulation.

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 guaranteed by the rated entity and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

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 stock corporation.

According to article 2 of the Articles of Association of UBS AG, dated 7 May 2015 ("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 enterprise 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 provide loans, guarantees and other kinds of financing and security for Group companies and borrow and invest money on the money and capital markets.

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. The UBS Group operates as a group with five business divisions (Wealth Management, Wealth Management Americas, Retail & Corporate, Asset Management and the Investment Bank) and a Corporate Center.

Over the past two years, UBS has undertaken a series of measures to improve the resolvability of the Group in response to too big to fail ("TbTF") requirements in Switzerland and other countries in which the Group operates.

In June 2015, UBS AG transferred its Retail & Corporate and Wealth Management business booked in Switzerland to UBS Switzerland AG, a banking subsidiary of UBS AG in Switzerland.

In the UK, UBS completed the implementation of a more self-sufficient business and operating model for UBS Limited, under which UBS Limited bears and retains a larger proportion of the risk and reward in its business activities.

In the third quarter of 2015, UBS established UBS Business Solutions AG as a direct subsidiary of UBS Group AG, to act as the Group service company. UBS will transfer the ownership of the majority of its existing service subsidiaries to this entity. UBS expects that the transfer of shared service and support functions into the service company structure will be implemented in a staged approach through 2018. 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.

UBS AG has established a new subsidiary, UBS Americas Holding LLC, which UBS intends to designate as its intermediate holding company for its US subsidiaries prior to the 1 July 2016 deadline under new rules for foreign banks in the US pursuant to the Dodd-Frank Act. During the third quarter of 2015, UBS AG contributed its equity participation in its principal US operating subsidiaries to UBS Americas Holding LLC to meet the requirement under the Dodd-Frank Act that the intermediate holding company own all of UBS's US operations, except branches of UBS AG.

UBS has established a new subsidiary of UBS AG, UBS Asset Management AG, into which it expects to transfer the majority of the operating subsidiaries of Asset Management during 2016. UBS continues to consider further changes to the legal entities used by Asset Management, including the transfer of operations conducted by UBS AG in Switzerland into a subsidiary of UBS Asset Management AG.

UBS continues to consider further changes to the Group's legal structure in response to capital and other regulatory requirements, and in order to obtain any reduction in capital requirements for which the Group may be eligible. Such changes may include the transfer of operating subsidiaries of UBS AG to become direct subsidiaries of UBS Group AG, consolidation of operating subsidiaries in the European Union, 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 2014, including information on UBS Group AG's significant subsidiaries, are discussed in the UBS Group AG and UBS AG annual report as of 31 December 2014 published on 13 March 2015 (the "Annual Report 2014"), on pages 527-536 (inclusive) of the English version.

UBS AG's interests in subsidiaries and other entities as of 31 December 2014, including information on UBS AG's significant subsidiaries, are discussed in the Annual Report 2014, on pages 691-699 (inclusive) of the English version.

3.2 Business Divisions and Corporate Center

UBS operates as a group with five business divisions (Wealth Management, Wealth Management Americas, Retail & Corporate, Asset Management - previously referred to as Global 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 in the Annual Report 2014, on pages 39-41 (inclusive) of the English version; a description of the businesses, strategies, clients, organizational structures, products and services of the business divisions and the Corporate Center can be found in the Annual Report 2014, on pages 46-62 (inclusive) of the English version.

3.2.1 Wealth Management

Wealth Management provides comprehensive financial services to wealthy private clients around the world - except those served by Wealth Management Americas. UBS is a global firm with global capabilities, and Wealth Management clients benefit from the full spectrum of UBS's global resources, ranging from investment management solutions to wealth planning and corporate finance advice, as well as a wide range of specific offerings. Its guided architecture model gives clients access to a wide range of products from third-party providers that complement UBS's own products.

3.2.2 Wealth Management Americas

Wealth Management Americas is one of the leading wealth managers in the Americas in terms of financial advisor productivity and invested assets. It provides advice-based solutions and banking services through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra high net worth and high net worth individuals and families. It includes the domestic US and Canadian business as well as the international business booked in the US.

3.2.3 Retail & Corporate

Retail & Corporate provides comprehensive financial products and services to its retail, corporate and institutional clients in Switzerland, maintaining a leading position in these client segments and embedding its offering in a multi-channel approach. The retail and corporate business constitutes a central building block of UBS's universal bank delivery model in Switzerland, supporting other business divisions by referring clients to them and assisting retail clients to build their wealth to a level at which UBS can transfer them to its Wealth Management unit. Furthermore, it leverages the cross-selling potential of products and services provided by its asset-gathering and investment banking businesses. In addition, Retail & Corporate manages a substantial part of UBS's Swiss infrastructure and Swiss banking products platform, which are both leveraged across the Group.

3.2.4 *Asset Management*

Asset Management is a large-scale, well-diversified asset manager with businesses across regions and client segments. It serves third-party institutional and wholesale clients, as well as clients of UBS's wealth management businesses with a broad range of investment capabilities and styles across all major traditional and alternative asset classes. Complementing the investment offering, the fund services unit provides fund administration services for UBS and third-party funds.

3.2.5 *Investment Bank*

The Investment Bank provides corporate, institutional and wealth management clients with expert advice, innovative solutions, execution and comprehensive access to the world's capital markets. It offers advisory services and access to international capital markets, and provides comprehensive cross-asset research, along with access to equities, foreign exchange, precious metals and selected rates and credit markets, through its business units, Corporate Client Solutions and Investor Client Services. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities.

3.2.6 *Corporate Center*

The Corporate Center comprises three units: Corporate Center – Services Corporate Center – Group Asset and Liability Management ("**Group ALM**") and Corporate Center - Non-core and Legacy Portfolio. Corporate Center – Services provides Group-wide control functions such as finance, risk control (including compliance) and legal. In addition it provides all logistics and support services, including operations, information technology, human resources, regulatory relations and strategic initiatives, communications and branding, corporate services, physical security, information security as well as outsourcing, nearshoring and offshoring. Corporate Center – Group ALM provides services such as liquidity, funding, balance sheet and capital management. Corporate Center - Non-core and Legacy Portfolio comprises the non-core businesses and legacy positions that were part of the Investment Bank prior to its restructuring.

3.3 **Competition**

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

3.4 Recent Developments

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 for the years ended 31 December 2012, 2013 and 2014 from its Annual Report 2014, which contains the audited consolidated financial statements of UBS AG, as well as additional unaudited consolidated financial information, for the year ended 31 December 2014 and comparative figures for the years ended 31 December 2013 and 2012. The selected consolidated financial information included in the table below for the nine months ended 30 September 2015 and 30 September 2014 was derived from the UBS AG third quarter 2015 financial report, which contains the unaudited consolidated financial statements of UBS AG, as well as additional unaudited consolidated financial information, for the nine months ended 30 September 2015 and comparative figures for the nine months ended 30 September 2014. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and stated in Swiss francs (CHF). The Annual Report 2014 and the third quarter 2015 financial report are incorporated by reference herein. In the opinion of management, all necessary adjustments were made for a fair presentation of the UBS AG consolidated financial position and results of operations. Information for the years ended 31 December 2012, 2013 and 2014 which is indicated as being unaudited in the table below was included in the Annual Report 2014 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. As described in more detail in Note 1b to the UBS AG consolidated financial statements contained in the Annual Report 2014, certain information which was included in the consolidated financial statements to the annual report 2013 was restated in the Annual Report 2014. The figures contained in the table below in respect of the year ended 31 December 2013 reflect the restated figures as contained in the Annual Report 2014. Prospective investors should read the whole of the Product Documentation and the documents incorporated by reference herein and should not rely solely on the summarized information set out below:

| CHF million, except where indicated | As of or for the six months ended | | As of or for the year ended | | |
|---|-----------------------------------|---------|--|----------|----------|
| | 30.9.15 | 30.9.14 | 31.12.14 | 31.12.13 | 31.12.12 |
| | <i>unaudited</i> | | <i>audited, except where indicated</i> | | |
| Results | | | | | |
| Operating income | 23,834 | 21,281 | 28,026 | 27,732 | 25,423 |
| Operating expenses | 18,655 | 19,224 | 25,557 | 24,461 | 27,216 |
| Operating profit / (loss) before tax | 5,179 | 2,057 | 2,469 | 3,272 | (1,794) |
| Net profit / (loss) attributable to UBS AG shareholders | 5,285 | 2,609 | 3,502 | 3,172 | (2,480) |
| Key performance indicators | | | | | |
| Profitability | | | | | |
| Return on tangible equity (%) ¹ | 15.4 | 8.3 | 8.2* | 8.0* | 1.6* |
| Return on assets, gross (%) ² | 3.2 | 2.8 | 2.8* | 2.5* | 1.9* |
| Cost / income ratio (%) ³ | 78.1 | 90.3 | 90.9* | 88.0* | 106.6* |
| Growth | | | | | |

| | | | | | |
|---|-------|------|-------|------|------|
| Net profit growth (%) ⁴ | 102.6 | 15.7 | 10.4* | - | - |
| Net new money growth for combined wealth management businesses (%) ⁵ | 2.0 | 2.4 | 2.5* | 3.4* | 3.2* |

Resources

| | | | | | |
|--|------|------|-------|-------|------|
| Common equity tier 1 capital ratio (fully applied, %) ^{6,7} | 15.3 | 13.7 | 14.2* | 12.8* | 9.8* |
| Leverage ratio (phase-in, %) ^{8,9} | 5.3 | 5.4 | 5.4* | 4.7* | 3.6* |

Additional information
Profitability

| | | | | | |
|---|------|------|-------|-------|--------|
| Return on equity (RoE) (%) ¹⁰ | 13.3 | 7.1 | 7.0* | 6.7* | (5.1)* |
| Return on risk-weighted assets, gross (%) ¹¹ | 14.6 | 12.4 | 12.4* | 11.4* | 12.0* |

Resources

| | | | | | |
|---|---------|-----------|------------|------------|------------|
| Total assets | 981,891 | 1,044,899 | 1,062,327 | 1,013,355 | 1,259,797 |
| Equity attributable to UBS AG shareholders | 54,126 | 50,824 | 52,108 | 48,002 | 45,949 |
| Common equity tier 1 capital (fully applied) ⁷ | 33,183 | 30,047 | 30,805 | 28,908 | 25,182* |
| Common equity tier 1 capital (phase-in) ⁷ | 40,581 | 42,464 | 44,090 | 42,179 | 40,032* |
| Risk-weighted assets (fully applied) ⁷ | 217,472 | 219,296 | 217,158* | 225,153* | 258,113* |
| Risk-weighted assets (phase-in) ⁷ | 221,410 | 222,648 | 221,150* | 228,557* | 261,800* |
| Common equity tier 1 capital ratio (phase-in, %) ^{6,7} | 18.3 | 19.1 | 19.9* | 18.5* | 15.3* |
| Total capital ratio (fully applied, %) ⁷ | 19.9 | 18.7 | 19.0* | 15.4* | 11.4* |
| Total capital ratio (phase-in, %) ⁷ | 23.7 | 24.9 | 25.6* | 22.2* | 18.9* |
| Leverage ratio (fully applied, %) ^{8,9} | 4.6 | 4.2 | 4.1* | 3.4* | 2.4* |
| Leverage ratio denominator (fully applied) ⁹ | 949,548 | 980,669 | 999,124* | 1,015,306* | 1,206,214* |
| Leverage ratio denominator (phase-in) ⁹ | 955,027 | 987,327 | 1,006,001* | 1,022,924* | 1,216,561* |

Other

| | | | | | |
|---|--------|--------|---------|---------|---------|
| Invested assets (CHF billion) ¹² | 2,577 | 2,640 | 2,734 | 2,390 | 2,230 |
| Personnel (full-time equivalents) | 58,502 | 60,292 | 60,155* | 60,205* | 62,628* |

* unaudited

¹ Net profit / loss attributable to UBS AG shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable) / average equity attributable to UBS AG shareholders less average goodwill and intangible assets. ² Operating income before credit loss (expense) or recovery (annualized as applicable) / average total assets. ³ Operating expenses / operating income before credit loss (expense) or recovery. ⁴ Change in net profit attributable to UBS AG shareholders from continuing operations between current and comparison periods / net profit attributable to UBS AG 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. ⁵ Combined Wealth Management's and Wealth Management Americas' net new money for the period (annualized as applicable) / invested assets at the beginning of the period. Based on adjusted net new money which excludes the negative effect on net new money (third quarter of 2015: 3.3 billion; second quarter of 2015: CHF 6.6 billion) in Wealth Management from UBS's balance sheet and capital optimization efforts in the second quarter of 2015. ⁶ Common equity tier 1 capital / risk-weighted assets. ⁷ Based on the Basel III framework as applicable to Swiss systemically relevant banks (SRB), which became effective in Switzerland on 1 January 2013. The information provided on a fully applied basis entirely reflects the effects of the new capital deductions and the phase out of ineligible capital instruments. The information provided on a phase-in basis gradually reflects those effects during the transition period. Numbers for 31 December 2012 are calculated on an estimated basis described below and are referred to as "pro-forma". Some of the models applied when calculating 31 December 2012 pro-forma information required regulatory approval and included estimates (as discussed with UBS's primary regulator) of the effect of new capital charges. These figures are not required to be presented, because Basel III requirements were not in effect on 31 December 2012. They are nevertheless included for comparison reasons. ⁸ Common equity tier 1 capital and loss-absorbing capital / total adjusted exposure (leverage ratio denominator). ⁹ In accordance with Swiss SRB rules. The Swiss SRB leverage ratio came into force on 1 January 2013. Numbers for 31 December 2012 are on a pro-forma basis (see footnote 7 above). ¹⁰ Net profit / loss attributable to UBS AG shareholders (annualized as applicable) / average equity attributable to UBS AG shareholders. ¹¹ Based on Basel III risk-weighted assets (phase-in) for 2015, 2014 and 2013, and on Basel 2.5 risk-weighted assets for 2012. ¹² Includes invested assets for Retail & Corporate.

3.4.2 *Swiss Federal Council proposes new capital requirements for Swiss systemically relevant banks*

In October 2015, the Swiss Federal Council published proposed cornerstones of a revised Swiss TBTF framework. For Swiss systemically relevant banks ("SRB") which operate internationally, the proposal would revise existing Swiss SRB capital requirements as a new going concern requirement and would establish an additional gone concern capital requirement, which, together with the going concern requirement, represents the total loss-absorbing capacity ("TLAC") required for Swiss SRB. The new requirements would be phased in and become fully applicable by the end of 2019. The proposal would make the Swiss capital regime by far the most demanding in the world.

The proposed going concern capital requirements consist of a basic requirement for all Swiss SRB which is set at 4.5% of the leverage ratio denominator ("LRD") and 12.9% of risk-weighted assets ("RWA"). On top of that, a progressive buffer would be added, reflecting the degree of systemic importance. The progressive buffer for UBS is expected to be 0.5% of the LRD and 1.4% of RWA, resulting in a total going concern capital requirement of 5.0% of LRD and 14.3% of RWA. The going concern leverage ratio proposal would require a minimum CET1 capital requirement of 3.5% of LRD and of up to 1.5% in high-trigger additional tier 1 ("AT1") capital instruments. The minimum CET1 capital requirement will remain unchanged at 10% of RWA, and the balance of the RWA-based capital requirement, i.e. 4.3%, may be met with high-trigger AT1 instruments.

The gone concern capital would be 5.0% of LRD and 14.3 % of RWA for internationally active Swiss SRB and may be met with senior debt that is TLAC eligible. Banks would be eligible for a reduction of the gone concern capital requirement if they demonstrate improved resolvability.

The proposal envisages transitional arrangements for outstanding low-trigger AT1 and tier 2 instruments to qualify as going concern capital until maturity or first call date and at least until the end of 2019. Any high and low-trigger tier 2 capital remaining after 2019 will qualify as gone concern capital while low-trigger tier 1 capital instruments will continue to qualify as going concern capital.

UBS will become compliant with the newly proposed rules at inception and intends to use the four-year phase-in period to fully implement the new requirements. UBS intends to meet the newly proposed CET1 leverage ratio requirement of 3.5% by retaining sufficient earnings, while maintaining its commitment to a capital return payout ratio of at least 50% of net profit. Furthermore, UBS plans to continue its issuance of AT1 instruments and TLAC-eligible senior debt to meet the new requirements without the need to increase its overall funding. Subject to market and other conditions, UBS currently expects to replace maturing UBS AG senior debt with Group TLAC-eligible senior debt, and maturing UBS AG tier 2 instruments with Group AT1 instruments. As previously TBTF-compliant AT1 and tier 2 instruments will remain eligible for capital treatment under the new regime on a grandfathering basis, UBS does not intend to use the proposed changes in the TBTF regime as a trigger to exercise its right to call outstanding low-trigger AT1 or tier 2 loss-absorbing notes. UBS's total TLAC issuance will be affected by a capital rebate which UBS expects to receive for its improved resilience and resolvability. However, the amount of this resolvability rebate, which may be up to 2.0% of LRD and 5.7% of RWA of the gone concern capital requirement, is still not clear.

In addition to defining the new capital requirements, the Federal Council has proposed that the implementation of a Swiss emergency plan is to be completed by the end of 2019. The Swiss emergency plan defines the measures required to ensure a continuation of systemically relevant functions in Switzerland.

The Federal Department of Finance will propose amendments to the Capital Adequacy Ordinance and the Banking Ordinance for public comment and is expected to submit the amended ordinances to the Federal Council in the first quarter of 2016.

3.4.3 *Changes to UBS's legal structure*

Over the past two years, UBS has undertaken a series of measures to improve the resolvability of the Group in response to TBTF requirements in Switzerland and other countries in which the Group operates.

During the third quarter, UBS Group AG completed the SESTA procedure resulting in the cancellation of the shares of the remaining minority shareholders of UBS AG. As a result, UBS Group AG now owns 100% of the outstanding shares of UBS AG. Following completion of the SESTA procedure, on 22 September 2015 UBS Group AG paid a supplementary capital return of CHF 0.25 per share to its shareholders.

In the third quarter, UBS established UBS Business Solutions AG as a direct subsidiary of UBS Group AG, to act as the Group service company. UBS will transfer the ownership of the majority of its existing service subsidiaries to this entity. UBS expects that the transfer of shared service and support functions into the service company structure will be implemented in a staged approach through 2018. 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.

UBS AG has established a new subsidiary, UBS Americas Holding LLC, which UBS intends to designate as its intermediate holding company for its US subsidiaries prior to the 1 July 2016 deadline under new rules for foreign banks in the US pursuant to the Dodd-Frank Act. During the third quarter of 2015, UBS AG contributed its equity participation in its principal US operating subsidiaries to UBS Americas Holding LLC to meet the requirement under the Dodd-Frank Act that the intermediate holding company own all of UBS's US operations, except branches of UBS AG.

UBS has established a new subsidiary of UBS AG, UBS Asset Management AG, into which UBS expects to transfer the majority of the operating subsidiaries of Asset Management during 2016. UBS continues to consider further changes to the legal entities used by Asset Management, including the transfer of operations conducted by UBS AG in Switzerland into a subsidiary of UBS Asset Management AG.

UBS's strategy, its business and the way it serves the vast majority of its clients are not affected by these changes. These plans do not require UBS to raise additional common equity capital and are not expected to materially affect the firm's capital-generating capability.

UBS is confident that the establishment of UBS Group AG and UBS Switzerland AG, along with its other announced measures, will substantially enhance the resolvability of the Group. FINMA has confirmed that these measures were in principle suitable to warrant a rebate under the current Swiss capital regulation. Therefore, UBS expects that the Group will qualify for a rebate on the gone concern capital requirements under the new Swiss TBTF proposal, which should result in lower overall capital requirements for the Group. The amount and timing of any such rebate will depend on the actual execution of these measures and can therefore only be specified once all measures are implemented.

UBS continues to consider further changes to the Group's legal structure in response to capital and other regulatory requirements and in order to obtain any reduction in capital requirements for which the Group may be eligible. Such changes may include the transfer of operating subsidiaries of UBS

AG to become direct subsidiaries of UBS Group AG, consolidation of operating subsidiaries in the European Union, 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.

3.4.4 *US Federal Reserve proposes TLAC requirements*

In October 2015, the Federal Reserve Board proposed long-term debt and TLAC requirements for US globally systemically important bank holding companies and US intermediate holding companies ("IHC") that are controlled by non-US globally systemically important banks. Under the proposed regulation, covered IHC, including UBS's IHC, would be required to have TLAC held by a non-US parent entity (internal TLAC) equal to the greatest of: (i) 16% or 18% of RWA, (ii) if the IHC is subject to the US supplementary leverage ratio, 6% or 6.75% of total leverage exposure and (iii) 8% or 9% of average total consolidated assets. The lower percentages would apply to an IHC if the home country resolution authority for the IHC's parent banking organization certifies to the Federal Reserve Board that its resolution strategy for the parent banking organization does not involve the IHC entering a resolution proceeding in the US. FINMA has adopted a single point of entry resolution strategy and UBS anticipates that it will qualify for the lower internal TLAC requirement. The TLAC requirement must be met with tier 1 capital and eligible long-term debt, including tier 2 capital instruments that meet requirements for eligible long-term debt, that is issued directly by the covered IHC to a foreign entity that controls the covered IHC.

An IHC also would be required to maintain outstanding eligible long-term debt held by a non-US parent entity equal to the greatest of: (i) 7% of RWA, (ii) if the IHC is subject to the US supplementary leverage ratio, 3% of total leverage exposure and (iii) 4% of average total consolidated assets. In addition, an IHC would be required to maintain an internal TLAC buffer of 2.5% of RWA plus any countercyclical buffer. Failure to maintain the buffer would trigger restrictions on distribution of dividends and discretionary variable compensation payments.

Eligible internal long-term debt generally must, among other things, be unsecured, unstructured, governed by US law, contractually subordinated to all third-party liabilities of the IHC, have a remaining maturity of at least one year, and include a contractual provision permitting the Federal Reserve Board to order the IHC to convert them into equity under certain circumstances.

The proposed regulation would also prohibit an IHC from issuing short-term debt or entering into qualified financial contracts with third parties, issuing certain guarantees of subsidiary liabilities, having a subsidiary guarantee liabilities of the IHC, or entering into arrangements that would permit a third party to offset a debt to a subsidiary of the IHC upon the IHC's default to the third party.

If adopted as proposed, these requirements would apply as of 1 January 2019, with the RWA-based component of the TLAC requirement phased in until 1 January 2022.

3.4.5 *Changes to the Group Executive Board ("GEB") and Board of Directors ("BoD")*

Robert J. McCann will take on a new role as Chairman UBS Americas. This follows his decision to step down from his current roles as President Wealth Management Americas and President UBS Americas as well as the GEB.

Tom Naratil, currently Group Chief Financial Officer and Group Chief Operating Officer, will succeed McCann as President Wealth Management Americas and President UBS Americas on the GEB.

UBS has named Axel P. Lehmann as its new group Chief Operating Officer. Lehmann will join the GEB and step down from the role he has held as a member of the BoD of UBS since 2009.

Kirt Gardner, currently Chief Financial Officer of Wealth Management, will become Group Chief Financial Officer and a member of the GEB.

Group Chief Risk Officer Philip J. Lofts has decided to step down from his current role and the GEB at the end of the year. He will be succeeded on the GEB by Christian Bluhm who joins UBS from FMS Wertmanagement.

President UBS Asia Pacific Chi-Won Yoon has decided to step down from his current role and the GEB at the end of the year. Yoon will be succeeded on the GEB by Kathryn Shih.

UBS has decided to appoint Sabine Keller-Busse, Group Head Human Resources, to the GEB.

All changes are effective 1 January 2016.

3.5 Trend Information

As stated in the third quarter 2015 financial report of UBS Group AG published on 3 November 2015, many of the underlying macroeconomic challenges and geopolitical issues that UBS has highlighted in previous quarters remain and are unlikely to be resolved in the foreseeable future. In addition, recently proposed changes to the too big to fail regulatory framework in Switzerland will cause substantial ongoing interest costs for the firm. UBS also continues to see headwinds from interest rates which have not increased in line with market expectations, negative market performance in certain asset classes and the weak performance of the euro versus the Swiss franc during the year. UBS is executing the measures already announced to mitigate these effects as it progresses towards its targeted return on tangible equity in the short to medium term. UBS's strategy has proven successful in a variety of market conditions. UBS remains committed to its strategy and its disciplined execution in order to ensure the firm's long-term success and deliver sustainable returns for its shareholders.

4. Administrative, Management and Supervisory Bodies of UBS AG

UBS AG is subject to, and compliant with, all relevant Swiss legal and regulatory requirements regarding corporate governance.

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 Group Executive Board ("GEB"), headed by the Group Chief Executive Officer ("Group CEO"), has executive management responsibility. The functions of Chairman of the BoD and Group CEO are assigned to two different people, ensuring a separation of power. 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 GEB under the leadership of the Group CEO.

No member of one board may simultaneously be a member of the other. The supervision and control of the GEB 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 six and a maximum of twelve members. All the members of the BoD are elected individually by the Annual General Meeting of Shareholders ("AGM") for a term of office of one year, which expires after completion of the next Annual General Meeting. Shareholders also elect the Chairman and the members of the Human Resources and Compensation Committee.

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

Refer to the section "Changes to the Group Executive Board ("GEB") and Board of Directors ("BoD")" above for information on changes to the BoD effective 1 January 2016.

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 | 2016 | Chairman of the Board of Directors of UBS Group AG. Member of the board of the Swiss Bankers Association, the Swiss Finance Council, the Institute of International Finance, the International Monetary Conference, and the Financial Services Professional Board, Kuala Lumpur. Member of the Group of Thirty, Washington, D.C. and the Board of Trustees of Avenir Suisse; member of the IMD Foundation Board, Lausanne; member of the European Financial Services Roundtable and the European Banking Group. Advisory board member of the Department of Economics at the University of Zurich; member of the Advisory Board of Zukunft Finanzplatz; member of the International Advisory Panel, Monetary Authority of Singapore. |
| Michel Demaré Syngenta International AG, Schwarzwaldallee 215, CH-4058 Basel | Independent Vice Chairman | 2016 | 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; Supervisory Board member of IMD, Lausanne; Chairman of SwissHoldings, Berne; Chairman of the Syngenta Foundation for Sustainable Agriculture. Member of the advisory board of the Department of Banking and Finance, University of Zurich. Member of the Advisory Board of Zukunft Finanzplatz. |

| | | | |
|---|-----------------------------------|------|--|
| David Sidwell UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Senior Independent Director | 2016 | Senior Independent Director of the Board of Directors of UBS Group AG. Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; board member of Ace 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 Hansfluhsteig 21 CH-5200 Brugg | Member | 2016 | Member of the Board of Directors of UBS Group AG. Professor, University of Basel; member of the board of Francioni AG. |
| Ann F. Godbehere UBS AG, Bahnhofstrasse 45, CH-8001 Zurich. | Member | 2016 | Member of the Board of Directors of UBS Group AG. Board member and Chairperson of the Audit Committee of Prudential plc, Rio Tinto plc and Rio Tinto Limited. Member of the board of British American Tobacco plc. |
| Axel P. Lehmann Zurich Insurance Group, Mythenquai 2, CH-8002 Zurich | Member | 2016 | Member of the Board of Directors of UBS Group AG. Regional Chairman Europe, Middle East and Africa of Zurich Insurance Group, Zurich; Chairman of the board of Farmers Group, Inc., Los Angeles; Chairman of Zurich Insurance plc., Dublin; Chairman of the Board of Trustees of the Pension Plans 1 and 2 of the Zurich Insurance Group; member of the supervisory board of Zurich Beteiligungs-AG, Frankfurt am Main; member of the board of Economiesuisse; Chairman of the Global Agenda Council on the Global Financial System of World Economic Forum ("WEF"); Chairman of the Board of the Institute of Insurance Economics of University of St. Gallen; member of the International and Alumni Advisory Board of University of St. Gallen; former chairman and member of the Chief Risk Officer Forum. |
| William G. Parrett UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Member | 2016 | Member of the Board of Directors of UBS Group AG. Member of the board and Chairperson of the Audit Committee of the Eastman Kodak Company; board member of the Blackstone Group LP (chairman of audit committee and chairman of the conflicts committee); board member of Thermo Fisher Scientific Inc. (chairman of audit committee); member of the board of IGATE Corporation; 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, Bellerivestrasse 201, CH-8034 Zurich | Member | 2016 | Member of the Board of Directors of UBS Group AG. Partner at Froriep, 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 Supervisory board of the Swiss national committee for UNICEF. |
| Beatrice Weder di Mauro Johannes Gutenberg- University Mainz, Jakob Welder-Weg 4, D-55099 Mainz | Member | 2016 | Member of the Board of Directors of UBS Group AG. Professor at the Johannes Gutenberg University, Mainz; member of the board of Roche Holding Ltd., Basel, and supervisory board of Robert Bosch GmbH, Stuttgart. Member of the economic advisory board of Fraport AG; member of the advisory board of Deloitte Germany. Deputy Chairman of the University Council of the University of Mainz. Member of the Corporate Governance Commission of the German Government; member of the Senate of the Max Planck Society; member of the Global Agenda Council on Sovereign Debt of the WEF. |
| Joseph Yam UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Member | 2016 | Member of the Board of Directors of UBS Group AG. Executive Vice President of the China Society for Finance and Banking. Member of the board of Johnson Electric Holdings Limited, of UnionPay International Co., Ltd. and of The Community Chest of Hong Kong. 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, a Senior Independent Director, BoD committee members, other than the members of the Human Resources and Compensation Committee who are elected by the shareholders, and their respective Chairpersons. At the same meeting, the BoD appoints a Company Secretary, who acts as secretary to the BoD and its committees.

The BoD committees comprise the Audit Committee, the Corporate Culture and Responsibility Committee, the Governance and Nominating Committee, the Human Resources and Compensation Committee and the Risk Committee. The BoD has also established ad-hoc committees, i.e. the Strategy Committee and the Special Committee.

4.1.3 Audit Committee

The Audit Committee ("AC") consists of five BoD members, all of whom having been determined by the BoD to be fully independent and financially literate.

The AC itself does not perform audits, but monitors the work of the external auditors who in turn are responsible for auditing UBS AG's 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 the following: (i) UBS AG's and the Group's accounting policies, financial reporting and disclosure controls and procedures, (ii) the quality, adequacy and scope of external audit, (iii) UBS AG's and the Group's compliance with financial reporting requirements, (iv) senior management's approach to internal controls with respect to the production and integrity of the financial statements and disclosure of the financial performance, and (v) the performance of UBS's Group Internal Audit in conjunction with the Chairman of the BoD.

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

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

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

4.2 Group Executive Board

Under the leadership of the Group CEO, the GEB has executive management responsibility for the business. All GEB members (with the exception of the Group CEO) are proposed by the Group CEO. The appointments are made by the BoD.

Refer to the section "Changes to the Group Executive Board ("GEB") and Board of Directors ("BoD")" above for information on changes to the GEB effective 1 January 2016.

4.2.1 Members of the Group Executive Board

| Member and business address | Function |
|---|-------------------------------|
| Sergio P. Ermotti UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Group Chief Executive Officer |
| Markus U. Diethelm UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Group General Counsel |

| | |
|---|---|
| Ulrich Körner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | President Asset Management and President Europe, Middle East and Africa |
| Philip J. Lofts UBS AG, 677 Washington Boulevard, Stamford, CT 06901 USA | Group Chief Risk Officer |
| Robert J. McCann UBS AG, 1200 Harbor Boulevard, Weehawken, NJ 07086 USA | President Wealth Management Americas and President Americas |
| Tom Naratil UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Group Chief Financial Officer and Group Chief Operating Officer |
| Andrea Orcel UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | President Investment Bank |
| Chi-Won Yoon UBS AG, 2 International Finance Centre 52/F, 8 Finance Street, Central, Hong Kong | President Asia Pacific |
| Jürg Zeltner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | President Wealth Management |

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

4.3 Potential Conflicts of Interest

Members of the BoD and GEB may act as directors or executive officers of other companies (for current principal positions outside UBS AG, if any, of BoD members, please see section 4.1.1 above) and may have economic or other private interests that differ from those of UBS AG. Potential conflicts of interest may arise from these positions or interests. UBS 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 39 of the Articles of Association, UBS AG shareholders elect the auditors for a term of office of one year. At the AGM of 3 May 2012, 2 May 2013, 7 May 2014 and 7 May 2015, 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 is a member of the Swiss Institute of Certified Accountants and Tax Consultants based in Zurich, Switzerland.

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

A description of UBS AG and UBS AG (consolidated) assets and liabilities, financial position and profits and losses for financial year 2013 is available in the Financial information section of the annual report of UBS AG as of 31 December 2013 ("Annual Report 2013"), and for financial year 2014 is available in the Financial information section of the Annual Report 2014. UBS AG's financial year is the calendar year.

With respect to the financial year 2013, reference is made to the following parts of the Annual Report 2013 (within the Financial information section, English version):

- (i) the Consolidated Financial Statements of UBS AG, in particular to the Income Statement on page 350, the Balance sheet on page 353, the Statement of Cash Flows on pages 357-358 (inclusive) and the Notes to the Consolidated Financial Statements on pages 359-505 (inclusive); and
- (ii) the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement on page 510, the Balance sheet on page 511, the Statement of Appropriation of Retained Earnings on page 512, the Notes to the Parent Bank Financial Statements on pages 513-531 (inclusive) and the Parent Bank Review on pages 507-509 (inclusive); and
- (iii) the section entitled "Introduction and accounting principles" on page 344.

With respect to the financial year 2014, reference is made to the following parts of the Annual Report 2014 (within the Financial information section, English version):

- (i) the UBS AG consolidated financial statements, in particular to the Income statement on page 554, the Balance sheet on page 557, the Statement of cash flows on pages 563-564 (inclusive) and the Notes to the consolidated financial statements on pages 565-724 (inclusive); and
- (ii) the UBS AG standalone financial statements, in particular to the Income statement on page 748, the Balance sheet on page 749, the Statement of appropriation of retained earnings and proposed distribution of capital contribution reserve on page 750, the Notes to the UBS AG standalone financial statements on pages 751-760 (inclusive) and the Financial review on pages 745-747 (inclusive)

As described in the Annual Report 2014 (Note 1b to the UBS AG consolidated financial statements) UBS AG has made certain adjustments in 2014 to the consolidated historical financial statements for the year ended 31 December 2013 due to (i) the adoption of Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32, Financial Instruments: Presentation) and (ii) removing exchange-traded derivative client cash balances from UBS AG's balance sheet. The comparative balance sheet as of 31 December 2013 was restated to reflect the effects of adopting these changes. These restatements had no impact on total equity, net profit, earnings per share or on UBS AG's Basel III capital. As described in the first quarter 2015 financial report of UBS AG (Note 1 to the interim consolidated financial statements), UBS AG has made certain adjustments in 2015 to the consolidated historical financial statements for the years ended 31 December 2014 and 31 December

2013 due to the refinement of the definition of cash and cash equivalents presented in the statement of cash flows to exclude cash collateral receivables on derivative instruments with bank counterparties. As described in the second quarter 2015 financial report of UBS AG (Note 1 to the interim consolidated financial statements), in the second quarter of 2015 UBS AG has (i) changed segment reporting related to fair value gains and losses on certain internal funding transactions and own credit, and (ii) revised the presentation of services and personnel allocations from Corporate Center – Services to business divisions and other Corporate Center units. Prior periods have been restated for these changes. These changes did not affect the UBS AG Group's total operating income, total operating expenses or net profit for any period presented.

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, and the audited standalone financial statements of UBS AG, prepared in order to meet Swiss regulatory requirements and in accordance with Swiss GAAP. The Financial information section of the annual reports also includes certain additional disclosures required under US Securities and Exchange Commission regulations. The annual reports also include discussions and analysis of the consolidated financial and business results of UBS, its business divisions and the Corporate Center.

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 2013 and 2014 were audited by Ernst & Young. The reports of the auditors on the consolidated financial statements can be found on pages 348-349 (inclusive) of the Annual Report 2013 and on pages 552-553 (inclusive) of the Annual Report 2014 (in both cases, within the Financial information section, English version). The reports of the auditors on the standalone financial statements of UBS AG can be found on pages 532-533 (inclusive) of the Annual Report 2013 and on pages 761-762 (inclusive) of the Annual Report 2014 (in both cases, within the Financial information section, English version).

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 2013 and 31 December 2014, which are incorporated by reference into this document.

7.3 Interim Financial Information

Reference is also made to the (i) first, second and third quarter 2015 financial reports of UBS Group AG, which contain information on the financial condition and results of operations of UBS Group AG (consolidated) and UBS AG (consolidated) as of and for the quarter ended 31 March 2015, as of, for the quarter and for the six months ended 30 June 2015, and as of, for the quarter and for the nine months ended 30 September 2015, respectively; and (ii) the first, second and third quarter 2015 financial reports of UBS AG, which contain the interim consolidated financial statements of UBS AG for the periods ended 31 March 2015, 30 June 2015 and 30 September 2015, respectively, and certain supplemental information. Refer to the section "Historical Annual Financial Information" above for information on financial reporting and accounting changes made in the second quarter 2015. The interim consolidated financial statements of UBS Group AG and UBS AG, contained in the first, second and third quarter 2015 financial reports of UBS Group AG and UBS AG, respectively, are not audited.

7.4 Incorporation by Reference

The Annual Report 2013, the Annual Report 2014, the first, second and third quarter 2015 financial reports of UBS Group AG, as well as the first, second and third quarter 2015 financial reports of UBS AG are fully incorporated in, and form an integral part of, this document.

7.5 Litigation, Regulatory and Similar Matters

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

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. There are also situations where 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. 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 15a to the unaudited interim consolidated financial statements contained in the third quarter 2015 financial report of UBS AG. It is not practicable to provide an aggregate estimate of liability for UBS's litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require UBS to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although UBS therefore cannot provide a numerical estimate of the future losses that could arise from the class of litigation, regulatory and similar matters, it 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 paragraph 5 of this section, which UBS entered into with the US Department of Justice ("DOJ"), Criminal Division, Fraud Section in connection with 'UBS's 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 has pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, and has agreed to pay a USD 203 million fine and accept 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 UBS's capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" section of the UBS Group AG's third quarter 2015 financial report.

Provisions for litigation, regulatory and similar matters by business division and Corporate Center unit ^{1,2}

| CHF million | WM | WMA | R&C | AM | IB | CC – Services | CC – Group ALM | CC - NcLP | UBS |
|---|------------|------------|-----------|-----------|------------|---------------|----------------|--------------|--------------|
| Balance as of 31 December 2014 | 188 | 209 | 92 | 53 | 1,258 | 312 | 0 | 941 | 3,053 |
| Balance as of 30 June 2015 | 188 | 229 | 86 | 48 | 724 | 302 | 0 | 791 | 2,368 |
| Increase in provisions recognized in the income statement | 4 | 54 | 0 | 0 | 0 | 6 | 0 | 577 | 642 |
| Release of provisions recognized in the income statement | (3) | (3) | 0 | 0 | 0 | 0 | 0 | (42) | (49) |
| Provisions used in conformity with designated purpose | (26) | (21) | (3) | (32) | (2) | 0 | 0 | (67) | (152) |
| Foreign currency translation / unwind of discount | 8 | 12 | 1 | 1 | 29 | 2 | 0 | 38 | 89 |
| Balance as of 30 September 2015 | 171 | 270 | 84 | 17 | 751 | 310 | 0 | 1,297 | 2,899 |

¹ WM = Wealth Management; WMA = Wealth Management Americas; R&C = Retail & Corporate; AM = Asset Management; IB = Investment Bank; CC-Services = Corporate Center – Services; CC – Group ALM = Corporate Center – Group Asset and Liability Management; CC-NcLP = Corporate Center - Non-core and Legacy Portfolio. ² Provisions, if any, for the matters described in this section are recorded in Wealth Management (item 3), Wealth Management Americas (item 4), Corporate Center – Services (item 7) and Corporate Center – Non-core and Legacy Portfolio (items 2 and 8). Provisions, if any, for the matters described in items 1 and 6 are allocated between Wealth Management and Retail & Corporate, and provisions for the matter described in item 5 are allocated between the Investment Bank and Corporate Center– Services.

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.

As a result of investigations in France, in 2013, 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 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 has filed an application with the European Court of Human Rights to challenge various aspects of the French court's decision. In September 2015, the former CEO of UBS Wealth Management was placed under formal examination in connection with these proceedings.

In March 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 was reduced by the Court of Appeals in May 2015 to EUR 10 million. UBS (France) S.A. is considering whether or not to further appeal that decision.

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. Separately, in 2013, the French banking supervisory authority's disciplinary commission reprimanded UBS (France) S.A. for having had insufficiencies in its control and compliance framework around its cross-border activities and know your customer obligations. It imposed a penalty of EUR 10 million, which was paid.

In January 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 30 September 2015 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 totaled approximately USD 19 billion in original principal balance.

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

RMBS-related lawsuits concerning disclosures: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits related to approximately USD 6.7 billion in original face amount of RMBS underwritten or issued by UBS. Of the USD 6.7 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 3.6 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitization trust and made representations and warranties about those loans ("UBS-sponsored RMBS"). The remaining USD 3.1 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter ("third-party RMBS").

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights. A class action in which UBS was named as a defendant was settled by a third-party issuer and received final approval by the district court in 2013. The settlement reduced the original face amount of third-party RMBS at issue in the cases pending against UBS by approximately USD 24 billion. The third-party issuer will fund the settlement at no cost to UBS. In 2014, certain objectors to the settlement filed a notice of appeal from the district court's approval of the settlement.

UBS is a defendant in two lawsuits 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. Both lawsuits were filed in US District Courts, one in the District of Kansas and the other in the Southern District of New York. The Kansas court partially granted UBS's motion to dismiss in 2013 and held that the NCUA's claims for 10 of the 22 RMBS certificates on which it had sued were time-barred. As a result, the original principal balance at issue in that case was reduced from USD 1.15 billion to approximately USD 400 million. The original principal balance at issue in the Southern District of New York case is approximately USD 400 million. In May 2015 the Kansas court, relying on a March 2015 decision rendered by the US Court of Appeals for the Tenth Circuit in a case filed by the NCUA against Barclays Capital, Inc., granted a motion for reconsideration filed by the NCUA and reinstated the NCUA's claims against UBS for the 10 certificates that had been dismissed in 2013.

Loan repurchase demands related to sales of mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust. UBS has been notified by certain institutional purchasers of mortgage loans and RMBS of their contention that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. The table "Loan repurchase demands by year received – original principal balance of loans" summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 29 October 2015. In the table, "Resolved demands" are considered to be finally resolved, and include demands that are time-barred under the decision rendered by the New York Court of Appeals on 11 June 2015 in *Ace Securities vs. DB Structured Products* ("Ace Decision"). Repurchase demands in all other categories are not finally resolved.

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

| <i>USD million</i> | 2006-2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015, through 29 October | Total |
|---|------------|------------|------------|--------------|--------------|------------|------------|--------------------------|--------------|
| Resolved demands | | | | | | | | | |
| Loan repurchases / make whole payments by UBS | 12 | 1 | | | | | | | 13 |
| Demands barred by statute of limitations | | 1 | 2 | 3 | 18 | 519 | 260 | | 803 |
| Demands rescinded by counterparty | 110 | 104 | 19 | 303 | 237 | | | | 773 |
| Demands resolved in litigation | 1 | 21 | | | | | | | 21 |
| Demands expected to be resolved by third parties | | | | | | | | | |
| Demands resolved or expected to be resolved through enforcement of indemnification rights against third-party originators | | 77 | 2 | 45 | 107 | 99 | 72 | | 403 |
| Demands in dispute | | | | | | | | | |
| Demands in litigation | | | 346 | 732 | 1,041 | | | | 2,118 |
| Demands in review by UBS | | | | 1 | | | | | 1 |
| Total | 122 | 205 | 368 | 1,084 | 1,404 | 618 | 332 | 0 | 4,133 |

¹ Loans submitted by multiple counterparties are counted only once.

Payments that UBS has made to date to resolve repurchase demands equate to approximately 62 % of the original principal balance of the related loans. Most of the payments that UBS has made to date have related to so-called Option ARM loans; severity rates may vary for other types of loans with different characteristics. Losses upon repurchase would typically reflect the estimated value of the loans in question at the time of repurchase as well as, in some cases, partial repayment by the borrowers or advances by servicers prior to repurchase.

In most instances in which UBS would be required to repurchase loans due to misrepresentations, UBS would be able to assert demands against third-party loan originators who provided representations when selling the related loans to UBS. However, many of these third parties are insolvent or no longer exist. UBS estimates that, of the total original principal balance of loans sold or securitized by UBS from 2004 through 2007, less than 50 % was purchased from surviving third-party originators. In connection with approximately 60 % of the loans (by original principal balance)

for which UBS has made payment or agreed to make payment in response to demands received in 2010, UBS has asserted indemnity or repurchase demands against originators. Since 2011, UBS has advised certain surviving originators of repurchase demands made against UBS for which UBS would be entitled to indemnity, and has asserted that such demands should be resolved directly by the originator and the party making the demand.

Any future repurchase demands should be time-barred by virtue of the Ace Decision.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: In 2012, certain RMBS trusts filed an action ("Trustee Suit") in the Southern District of New York seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations ("Transactions") with an original principal balance of approximately USD 2 billion for which Assured Guaranty Municipal Corp. ("Assured Guaranty"), a financial guaranty insurance company, had previously demanded repurchase. In January 2015, the court rejected plaintiffs' efforts to seek damages for all loans purportedly in breach of representations and warranties in any of the three Transactions and limited plaintiffs to pursuing claims based solely on alleged breaches for loans identified in the complaint or other breaches that plaintiffs can establish were independently discovered by UBS. In February 2015, the court denied plaintiffs' motion seeking reconsideration of its ruling. 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. Related litigation brought by Assured Guaranty was resolved in 2013.

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

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

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 September 2015, the Eastern District of New York identified a number of transactions that are currently the focus of their inquiry, as to which UBS is providing additional information. UBS continues to respond to the FIRREA subpoena and to subpoenas from the New York State Attorney General ("NYAG") 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 the present. UBS is cooperating with the authorities in these matters. Numerous other banks reportedly are responding to similar inquiries from these authorities.

As reflected in the table "Provision for claims related to sales of residential mortgage-backed securities and mortgages", UBS's balance sheet at 30 September 2015 reflected a provision of USD 1,174 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.

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

| <i>USD million</i> | |
|--|--------------|
| Balance as of 31 December 2014 | 849 |
| Balance as of 30 June 2015 | 772 |
| Increase in provision recognized in the income statement | 507 |
| Release of provision recognized in the income statement | (44) |
| Provision used in conformity with designated purpose | (61) |
| Balance as of 30 September 2015 | 1,174 |

3. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC ("BMIS") investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority ("FINMA") and the Luxembourg Commission de Surveillance du Secteur Financier ("CSSF"). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without however being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals 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 July 2015, the Luxembourg Court of Appeal dismissed one test appeal in its entirety, which decision was appealed by the investor. In July 2015, the Luxembourg Supreme Court found in favor of UBS and dismissed the investor's appeal. 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 Southern District of New York 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 June 2014, the US Supreme Court denied the BMIS Trustee's petition seeking review of the Second Circuit ruling. In December 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 July 2015, following a motion by UBS, the Southern District of New York 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. 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 January 2015, a court of appeal reversed a lower court decision in favor of UBS in one such case and ordered UBS to pay EUR 49 million, plus interest. UBS has filed an application for leave to appeal the decision.

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 USD 1.4 billion. 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 in losses in the funds. In 2015, defendants' motion to dismiss was denied. Defendants are seeking leave to appeal that ruling to 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 have moved to dismiss that complaint. In March 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.

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 the settlement, UBS contributed USD 3.5 million to an investor education fund, offered USD 1.68 million in restitution to certain investors and, among other things, committed to undertake an additional review of certain client accounts to determine if additional restitution would be appropriate. That review resulted in an additional USD 2.1 million in restitution being offered to certain investors.

In September 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 (which includes USD 1.18 million in disgorgement, a civil penalty of USD 13.63 million and pre-judgment interest), and USD 18.5 million in the FINRA matter (which includes up to USD 11 million in restitution to 165 UBS PR customers and a civil penalty of USD 7.5 million). The SEC settlement involves a charge against UBS PR of failing to supervise the activities of a former financial advisor who had recommended the impermissible investment of non-purpose loan proceeds into the UBS PR closed-end funds, in violation of firm policy and the customer loan agreements. In

the FINRA settlement, UBS PR is alleged to have failed to supervise certain customer accounts which were both more than 75% invested in UBS PR closed-end funds and leveraged against those positions. 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 and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. UBS is named in connection with its underwriting and consulting services. In 2013, the case was dismissed by the Puerto Rico Court of First Instance on the grounds that plaintiffs did not have standing to bring the claim, but that dismissal was subsequently overturned on appeal. Defendants have renewed their motion to dismiss the complaint on grounds not addressed when the court issued its prior ruling.

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. A motion for class certification was denied without prejudice to the right to refile the motion after limited discovery.

In June 2015 Puerto Rico's Governor stated that the Commonwealth is unable to meet its obligations and in September 2015, the Puerto Rico government-established Working Group for the Fiscal and Economic Recovery of Puerto Rico issued a fiscal and economic growth plan as well as a proposal to negotiate with its creditors to restructure the island's outstanding debt. The Governor's statement and market reaction to any proposed debt restructuring may increase the number of claims against UBS concerning Puerto Rico securities as well as potential damages sought.

UBS's balance sheet at 30 September 2015 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

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 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") and the Hong Kong Monetary Authority ("HKMA"), the Korea Fair Trade Commission 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 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. The conduct described in the settlements and the FINMA order includes certain UBS personnel: engaging in efforts, alone or in cooperation/collusion with traders at other banks, to manipulate foreign exchange benchmark rates involving multiple currencies, attempts to trigger client stop-loss orders for UBS's benefit, and inappropriate sharing of confidential client information. UBS has ongoing obligations to cooperate with these authorities and to undertake certain remediation, including actions to improve processes and controls and requirements imposed by FINMA to apply compensation restrictions for certain employees and to automate at least 95% of UBS's global foreign exchange and precious metals trading by 31 December 2016. In 2014, the HKMA announced the conclusion of its investigation into foreign exchange trading operations of banks in Hong Kong. The HKMA found no evidence of collusion among the banks or of manipulation of foreign exchange benchmark rates in Hong Kong. The HKMA also found that banks had internal control deficiencies with respect to their foreign exchange trading operations.

In May 2015, the DOJ's Criminal Division ("Criminal Division") terminated the NPA with UBS AG. As a result, UBS AG entered into a plea agreement with the Criminal Division pursuant to which UBS AG agreed to and did plead 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. Under the plea agreement, UBS AG agreed to a sentence that includes a USD 203 million penalty and a three-year term of probation. 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. Sentencing is currently scheduled for 9 May 2016. The Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain of UBS AG's 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 customers and collusion with other participants in certain foreign exchange markets.

In May 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. The Federal Reserve Order is based on the Federal Reserve Board's finding that UBS AG had deficient policies and procedures that prevented UBS AG from detecting and addressing unsafe and unsound conduct by foreign exchange traders and salespeople, including disclosures to traders of other institutions of confidential customer information, agreements with traders of other institutions to coordinate foreign exchange trading in a manner to influence certain foreign exchange benchmarks fixes and market prices, and trading strategies that raised potential conflicts of interest, possible agreements with traders of other institutions regarding bid/offer spreads offered to foreign exchange customers, the provision of information to customers regarding price quotes and how a customer's foreign exchange order is filled.

UBS has been granted 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 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 leniency by authorities in certain jurisdictions, including WEKO, in connection with potential competition law violations relating to precious metals, 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's continuing cooperation.

In October 2015, UBS AG settled charges with the SEC relating to structured notes issued by UBS AG that were linked to the UBS V10 Currency Index with Volatility Cap. The SEC alleged that UBS negligently made certain statements and omissions in the offer and sale of the notes that violated Section 17(a)(2) of the Securities Act of 1933. Pursuant to the settlement, and without admitting or denying the SEC's findings, UBS agreed to pay a total of USD 19.5 million, consisting of USD 10 million in disgorgement, a USD 8 million penalty, and USD 1.5 million in prejudgment interest. UBS AG also agreed to pay USD 5.5 million of the disgorgement funds to investors who purchased the SEC-registered V10 notes. In addition, UBS has determined to compensate clients who purchased V10 instruments that were not registered with the SEC.

Investigations relating to foreign exchange 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 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 March 2015, UBS entered into a settlement agreement to resolve those actions. In 2015, additional putative class actions have been 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 July 2015, a consolidated complaint was filed on behalf of both putative classes of persons covered by the actions described above. In August 2015, UBS entered into an amended settlement agreement that would resolve all of these claims. The agreement, which is subject to court approval, requires, among other things, that UBS pay an aggregate of USD 141 million and provide cooperation to the settlement classes.

In June 2015, a putative class action was 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.

In 2015, UBS was added to putative class actions pending against other banks in federal court in New York on behalf of putative classes of persons who bought or sold physical precious metals and various precious metal products and derivatives. The complaints in these lawsuits assert claims under the US antitrust laws and the CEA and for unjust enrichment.

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, including HIBOR (Hong Kong Interbank Offered Rate) and ISDAFIX, a benchmark rate used for various interest rate derivatives and other financial instruments. 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 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. The conduct described in the various settlements and the FINMA order includes certain UBS personnel: engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions; colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions; and giving inappropriate directions to UBS submitters that were in part motivated by a desire to avoid unfair and negative market and media perceptions during the financial crisis. The benchmark interest rates encompassed by one or more of these resolutions include Yen LIBOR, GBP LIBOR, Swiss franc ("CHF") LIBOR, Euro LIBOR, US dollar ("USD") LIBOR, EURIBOR (Euro Interbank Offered Rate) and Euroyen TIBOR (Tokyo Interbank Offered Rate). UBS has ongoing obligations to cooperate with authorities with which it has reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions. Under the NPA, UBS agreed, among other things, that for two years from 18 December 2012 UBS would not commit any US crime, and UBS 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 May 2015, the Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain of UBS AG's employees committed criminal conduct that violated the NPA. As a result, UBS entered into a plea agreement with the DOJ under which it entered a guilty plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR, and agreed to pay a fine of USD 203 million and accept a three-year term of probation. Sentencing is currently scheduled for 9 May 2016. The MAS, HKMA, ASIC and the Japan Financial Services Agency have all resolved investigations of UBS (and in some cases other banks). The orders or undertakings in connection with these investigations generally require UBS to take remedial actions to improve its processes and controls, impose monetary penalties or other measures. Investigations by the CFTC, ASIC and other governmental authorities remain ongoing notwithstanding these resolutions. 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 has paid a EUR 12.7 million fine, which was reduced to this level based in part on UBS's cooperation with the EC.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ, WEKO and the EC, in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. WEKO has also granted UBS conditional immunity in connection with potential competition law violations related to submissions for CHF LIBOR and certain transactions related to CHF LIBOR. The Canadian Competition Bureau ("Bureau") had granted UBS conditional immunity in connection with potential competition law violations related to submissions for Yen LIBOR, but in January 2014, the Bureau discontinued its investigation into Yen LIBOR for lack of sufficient evidence to justify prosecution under applicable laws. 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 or leniency in connection with the matters covered by the conditional grants, subject to UBS's continuing cooperation. However, the conditional leniency and conditional immunity grants UBS has received do not bar government agencies from asserting other claims and imposing sanctions against UBS, as evidenced by the settlements and ongoing investigations referred to above. In addition, as a result of the conditional leniency agreement with the DOJ, UBS is eligible for a limit on liability to actual rather than treble damages were damages to be awarded in any civil antitrust action under US law based on conduct covered by the agreement and for relief from potential joint and several liability in connection with such civil antitrust action, subject to UBS satisfying the DOJ and the court presiding over the civil litigation of its cooperation. The conditional leniency and conditional immunity grants do not otherwise affect the ability of private parties to assert civil claims against UBS.

LIBOR and other benchmark-related civil litigation: A number of putative class actions and other actions are pending in, or expected to be transferred to, 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 are actions asserting losses related to various products whose interest rate was linked to USD LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest-bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including LIBOR, Euroyen TIBOR, EURIBOR or USD ISDAFIX rates and seek unspecified compensatory and other damages, including treble and punitive damages, under varying legal theories that include violations of the CEA, the federal racketeering statute, federal and state antitrust and securities laws and other state laws. In 2013, a federal court in New York 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. The court has granted certain plaintiffs permission to assert claims for unjust enrichment and breach of contract against UBS and other defendants, and limited the CEA claims to contracts purchased between 15 April 2009 and May 2010. In 2015, the court in the US dollar action granted certain plaintiffs permission to assert common law fraud claims against UBS and other defendants. Certain plaintiffs have also appealed the dismissal of their US dollar antitrust claims; this appeal remains pending. In 2014, the court in the Euroyen TIBOR lawsuit dismissed the plaintiff's federal antitrust and state unjust enrichment claims and dismissed a portion of the plaintiff's CEA claims. In 2015, the court in the Euroyen TIBOR case dismissed plaintiff's federal racketeering claims and affirmed its previous dismissal of plaintiff's antitrust claims. UBS and other defendants in other lawsuits including the one related to Euroyen TIBOR have filed motions to dismiss.

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 the CEA, among other theories, and seeks unspecified compensatory damages, including treble damages.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, UBS's balance sheet at 30 September 2015 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 Swiss Supreme Court 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. The note sets forth the measures Swiss banks are to adopt, which include informing all affected clients about the Supreme Court decision and directing them to an internal bank contact for further details. UBS has met the FINMA requirements and has notified all potentially affected clients.

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 30 September 2015 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 2.3 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. 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. These assessments are being challenged in administrative and judicial proceedings. In May 2015, the administrative court issued a decision that was largely in favor of the tax authority with respect to the goodwill amortization assessment. This decision has been appealed.

8. Matters relating to the CDS market

In 2013, the EC issued a Statement of Objections against 13 credit default swap ("CDS") dealers including UBS, as well as data service provider Markit and the International Swaps and Derivatives Association ("ISDA"). The Statement of Objections broadly alleges that the dealers infringed European Union antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and 2009. UBS submitted its response to the Statement of Objections and presented its position in an oral hearing in 2014. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. In 2014, putative class action plaintiffs filed consolidated amended complaints in the Southern District of New York against 12 dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act and common law. Plaintiffs allege that the defendants unlawfully conspired to restrain competition in and/or monopolize the market for CDS trading in the US in order

to protect the dealers' profits from trading CDS in the over-the-counter market. Plaintiffs assert claims on behalf of all purchasers and sellers of CDS that transacted directly with any of the dealer defendants since 1 January 2008, and seek unspecified trebled compensatory damages and other relief. In 2014, the court granted in part and denied in part defendants' motions to dismiss the complaint. In September 2015, UBS and the other defendants entered into settlement agreements to resolve the litigation, pursuant to which UBS will pay USD 75 million out of a total settlement amount of approximately USD 1.865 billion. The agreements have received preliminary court approval but are subject to final court approval.

Besides the proceedings specified above under (1) through (8), there are no court, arbitral or administrative proceedings (including any such proceedings which are pending or threatened, of which UBS AG is aware), which are of material importance to UBS AG's assets and liabilities or profits and losses.

7.6 Material Contracts

No material contracts have been entered into outside of the ordinary course of UBS AG's or UBS 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.

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

Except as otherwise indicated in this document (including the documents incorporated by reference herein), no material changes have occurred in UBS AG's assets and liabilities, financial position and profits and losses since 30 September 2015.

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 384,456,091.30, divided into 3,844,560,913 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; (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; (c) CHF 5,000,000, comprising 50,000,000 registered shares with a par value of CHF 0.10 each that can be issued upon the exercise of options that UBS AG will grant in connection with the cash or title dividend distributed in the year 2015 (article 4a).

9. Documents on Display

- The annual report of UBS AG as of 31 December 2013, comprising the sections (1) Operating environment and strategy, (2) Financial and operating performance, (3) Risk, treasury and capital management, (4) Corporate governance, responsibility and compensation, (5) Financial information (including the "Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements" and the "Report of the statutory auditor on the financial statements");
- The annual report of UBS Group AG and UBS AG as of 31 December 2014, comprising the sections (1) UBS Group - Changes to our legal structure; (2) Operating environment and strategy, (3) Financial and operating performance, (4) Risk, treasury and capital management, (5) Corporate governance, responsibility and compensation, (6) Financial information (including the "Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements" and the "Report of the statutory auditor on the financial statements");
- The first, second and third quarter 2015 financial reports of UBS Group AG, as well as the first, second and third quarter 2015 financial reports of UBS AG; and
- The Articles of Association of UBS AG,

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