



General Terms and Conditions for Fixed Rate Notes

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APPENDIX: DESCRIPTION OF UBS AG

1. Preliminary Remarks

UBS AG (the "Issuer" or "UBS AG" or "UBS") may from time to time issue fixed rate notes in securitized form (the "Products"). The Products will be issued based (i) on the information set out in these "General Terms and Conditions for Fixed Rate Notes", as amended from time to time (the "General Terms and Conditions") and (ii) on the relevant final terms of each Product (the "Final Terms"). The General Terms and Conditions and the Final Terms shall form the entire documentation for each Product (the "Product Documentation") and should always be read in conjunction with each other. In case of inconsistency between the General Terms and Conditions and the Final Terms, the Final Terms shall prevail.

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

The offering or sale of the Products 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.

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

2. Risk Factors

An investment in the Products involves certain risks. If one or more of the risks described below occur, potential investors in the Products (the "Potential Investors") may incur a partial loss or even a total loss of their invested capital. Potential Investors should carefully consider the following factors prior to investing in the Products. This section of the General Terms and Conditions does not purport to be an extensive and comprehensive list of all possible risks associated with an investment in the Products.

*Investment decisions should **not** be made solely on the basis of the risk warnings set out in the Product Documentation, since such information cannot serve as a substitute for individual advice and information which is tailored to the requirements, objectives, experience, knowledge and circumstances of each Potential Investor individually.*

2.1 General Risk Factors

2.1.1 Advice from your Principal Bank

This information is not intended to replace the advice Potential Investors should always obtain from their respective principal bank before making a decision to invest in the Products. Only Potential Investors who are fully aware of the risks associated with the investment in the Products and who are financially able to bear any losses that may arise, should consider engaging in transactions of this type.

2.1.2 Buying Products on Credit

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

2.1.3 Independent Review and Advice

Prior to entering into a transaction Potential Investors should consult their own legal, regulatory, tax, financial and accounting advisors to the extent they consider necessary, and make their own investment, hedging and trading decisions (including decisions regarding the suitability of an investment in the Products) based upon their own independent review and judgment and advice from those advisers they consider necessary.

Furthermore, Potential Investors 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 Products. However, as part of such independent investigation and analysis, Potential Investors should consider carefully all the information set forth in the Product Documentation.

Investment in the Products may involve a loss of principal by virtue of the terms of the Products even where there is no default by the Issuer. Potential Investors will at all times be solely responsible for making their own independent appraisal of, and investigation into, the business, financial condition, prospects, creditworthiness, status and affairs of the Issuer in respect of the charged assets. None of the Issuer, the Lead Manager, the Paying Agent, the Calculation Agent, or any other agent nor any affiliate of any of them (or any person or entity on their behalf) will have any responsibility or duty to make any such investigations, to keep any such matters under review, to provide the Potential Investors with any information in relation to such matters or to advise as to the accompanying risks.

2.1.4 Investor Suitability

The purchase of the Products involves substantial risks. Potential Investors should be familiar with instruments having the characteristics of the Products and should fully understand the terms and conditions set out in the Product Documentation and the nature and extent of their exposure to risk of loss.

In addition, Potential Investors must determine, based on their own independent review and such legal, business, tax and other advice as it deems appropriate under the circumstances, that the acquisition of the Products (i) is fully consistent with their financial needs, objectives and conditions, (ii) complies and is fully consistent with all constituent documents, investment policies, guidelines, authorisations and restrictions (including as to its capacity) applicable to them, (iii) has been duly approved in accordance with all applicable laws and procedures and (iv) is a fit, proper and suitable investment for them.

2.1.5 Changes in Tax Law and Tax Call

The tax considerations set forth in the Product Documentation reflect the 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 tax authorities and courts could be interpreted differently. Additionally, the tax considerations set forth herein may not be used as the sole basis for the decision to invest in the Products from a tax perspective, since the individual situation of each Potential Investor 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.

In accordance with the terms and conditions set out in the General Terms and Conditions, the Issuer may redeem all outstanding Products early for tax reasons. Accordingly, Potential Investors should consult their personal tax advisors before making any decision to purchase the Products and must be aware of and be prepared to bear the risk of a potential early redemption due to tax reasons. The Issuer and the Lead Manager do not accept any liability for adverse tax consequences of an investment in the Products.

2.1.6 Effect of Ancillary Costs

Commissions and other transaction costs incurred in connection with the purchase or sale of Products may result in charges, particularly in combination with a low order value, which can substantially reduce any Redemption Amount. Before acquiring Products, Potential Investors should therefore inform themselves of all costs incurred with the purchase or sale of the Product, including any costs charged by their custodian banks upon purchase and redemption of the Products.

2.1.7 No Reliance

The Issuer and all of its affiliates respectively disclaim any responsibility to advise Potential Investors of the risks and investment considerations associated with the purchase of the Products as they may exist at the date hereof or from time to time hereafter.

2.1.8 Legality of Purchase

The Issuer has no and assumes no responsibility for (i) the lawfulness of the acquisition of the Products by Investors or for (ii) the compliance by Investors with any law, regulation or regulatory policy applicable to them.

2.2 Market Risk Factors

2.2.1 No Liquidity or Secondary Market

As the Products are not listed or traded on any exchange, pricing information regarding the Products may be more difficult to obtain and the liquidity of the Products may be adversely affected. The liquidity of the Products may also be affected by restrictions on the purchase and sale of the Products in some jurisdictions.

The Issuer or the Lead Manager, as applicable, intends, does not intend to provide bid and offer prices for the Products. Potential Investors therefore should not rely on the ability to sell Products at a specific time or at a specific price. The Issuer has the right (but no obligation) to purchase Products at any time and at any price in the open market or by tender or private agreement. Any Products so purchased may be held or resold or surrendered for cancellation.

2.2.2 Risks Factors associated with Currency Exchange Rates

An investment in Products may involve risk exposure to fluctuations in exchange rates of the relevant currencies in which the Products are denominated and the Underlying is traded or evaluated. For example (i) the Underlying may be denominated in a currency other than that of the Products, (ii) the Products may be denominated in a currency other than the currency of the Investor's home jurisdiction and/or (iii) the Products may be denominated in a currency other than the currency in which an Investor wishes to receive funds.

Currency values may be affected by complex political and economic factors, including governmental action to fix or support the value, regardless of other market forces.

If the Potential Investor's right vested in the Products is determined on the basis of a currency other than the Settlement Currency, or if the value of the Underlying is determined in a currency other than the Settlement Currency, Potential Investors should be aware that investments in these Products could entail risks due to fluctuating exchange rates, and that the risk of loss does not depend solely on the performance of the Underlying, but also on unfavourable developments in the value of the such other currency.

2.3 Risk Factors relating to the Products

2.3.1 Risk-hedging Transactions

The ability to eliminate or to restrict the initial risks of the Products 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 specific Product. As a consequence, such transactions may be concluded at unfavourable market prices to the effect that corresponding losses may arise.

Potential Investors should therefore not rely on the ability to conclude transactions at any time during the term of the Products that will allow them to offset or limit relevant risks.

2.3.2 Disruption Events

In accordance with the terms and conditions set out in the General Terms and Conditions, the Lead Manager or the Calculation Agent may determine in its absolute sole discretion that a Market Disruption Event has occurred or exists at a relevant time. Any such determination may have an adverse effect on the value of the Products.

2.3.3 Other Factors affecting Value

The value of a Product is determined not only by changes in the price of the Underlying, but also a number of other factors. Since several risk factors may have simultaneous effects on the Products, the effect of a particular risk factor cannot be predicted. In addition, several risk factors may have a compounding effect which may not be predictable. No assurance can be given with regard to the effect that any combination of risk factors may have on the value of the Products.

These factors include, *inter alia*, the terms and conditions of the specific Product, the frequency and intensity of price fluctuations (volatility) in the Underlying, as well as the prevailing interest rate. A decline in the value of the Product may therefore occur even if the price or level, as the case may be, of the Underlying remains constant.

Potential Investors should be aware that an investment in the Products involves a valuation risk with regard to the Underlying. They should have experience with transactions in Products with a value derived from an underlying. The value of an underlying may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro economic factors and speculation. If the Underlying comprises a basket of various assets, fluctuations in the value of any one asset may be offset or intensified by fluctuations in the value of other basket components. In addition, the historical performance of an underlying is not an indication of its future performance. The historical price of an underlying does not indicate its future performance. Changes in the market price of an underlying will affect the trading price of the Products, and it is impossible to predict whether the market price of an underlying will rise or fall.

2.3.4 Fluctuations in Market Volatility may affect the Value of Products

Market volatility reflects the degree of instability and expected instability of the performance of the commodity market over time. The level of market volatility is not purely a measurement of the actual market volatility, but is largely determined by the prices for derivative instruments that offer Potential Investors protection against such market volatility. The prices of these instruments are determined by forces such as actual market volatility, expected market volatility, other economic and financial conditions and trading speculations.

2.3.5 Investors must be willing and prepared to hold their Product until Maturity

Investors must be willing and prepared to hold their Product until the Expiration Date. The invested amount is protected only if the Investor holds this Product until the Expiration Date. If an Investor sells the Product in the secondary market prior to the Expiration Date, the Investor will not have capital protection on the portion of the Product sold.

2.3.6 Clearing and Transfer of the Products are subject to Limitations

The Products will be issued as uncertificated securities. They do not take the form of actual securities but exist purely as book entries with a UBS- internal Valor number. During the entire life of the Products the uncertificated securities will be booked at UBS only. This means that the Products can only be transferred to Purchaser holding a securities account at UBS and that no external clearing is possible.

2.3.7 Views of the Issuer and Research Reports published by the Issuer

The Issuer and its affiliates from time to time express views on expected movements in foreign currency exchange rates in the ordinary course of their businesses. These views are sometimes communicated to clients who participate in foreign exchange markets. 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 who deal in foreign currencies may at any time have significantly different views from the views of the Issuer and its affiliates. Investors must derive information about foreign exchange markets from multiple sources. Investors should investigate the foreign exchange markets and not rely on views which may be expressed by the Issuer or its affiliates in the ordinary course of the Issuers or its affiliates businesses with respect to future exchange rate movements.

The Issuer, or one or more of its affiliates may, at present or in the future, publish research reports with respect to movements in foreign exchange rates generally or in the relevant exchange rate specifically. This research is modified from time to time without notice and may express opinions or provide recommendations that are inconsistent with purchasing or holding the Products. Any of these activities may affect the market value of the Products.

2.3.8 Unpredictable Factors

The relevant spot exchange rate may be influenced by unpredictable factors, including fluctuations in currency exchange rates. The value of the Underlying and its spot levels, and, therefore, the investment, may be affected by various and often unpredictable factors, including, but not limited to, the exchange rate and economic, financial, social and political conditions globally and in particular countries. The exchange rate and the liquidity and trading values of, and amounts payable with respect to, the Product may be affected by the actions of sovereign governments that may directly or indirectly impact the Underlying. The market value of the Product may fluctuate between the Trade Date and the Expiration Date at the Expiration Time. The Calculation Agent will determine the settlement on maturity.

2.3.9 No Systematic Reporting of Last-Sale Information for Foreign Currencies

There is no systematic reporting of last-sale information for foreign currencies. Reasonable current bid and offer information is available in certain brokers' offices, in bank foreign currency trading offices, and to others who wish to subscribe for this information, but this information will not necessarily reflect the relevant exchange rate relevant for determining the value of the Products. The absence of last-sale information and the limited availability of quotations to individual investors make it difficult for many Investors to obtain timely, accurate data about the state of the underlying foreign exchange markets.

2.4 Risk Factors relating to the Issuer

2.4.1 Non-reliance on Financial Information of the Issuer

As a global financial services provider, the business activities 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 are and have been subject to fluctuations. The revenues and earnings figures from a specific period, thus, are not evidence of sustainable results. They can change from one year to the next and affect the Issuer's ability to achieve its strategic objectives.

2.4.2 General Insolvency Risk

Each Investor bears the general risk that the financial situation of the Issuer could deteriorate. The Products constitute immediate, unsecured and unsubordinated obligations of the Issuer, which, in particular in case of insolvency of the Issuer, rank *pari passu* with each 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.

2.4.3 Effect of Downgrading of the Issuer's Rating

The general assessment of the Issuer's creditworthiness may affect the value of the Products. This assessment generally depends on the ratings assigned to the Issuer or its affiliated companies by rating agencies such as Moody's, Fitch and Standard & Poor's.

2.4.4 Potential Conflicts of Interest

The Issuer and affiliated companies may participate in transactions related to the Products in some way, for their own account or for account of a client. Such transactions may not serve to benefit the Investors and may have a positive or negative effect on the value of the Underlying and consequently on the value of the Products. Furthermore, companies affiliated with the Issuer may become counterparties in hedging transactions relating to obligations of the Issuer stemming from the Products. As a result, conflicts of interest can arise between companies affiliated with the Issuer, as well as between these companies and Investors, in relation to obligations regarding the calculation of the price of the Products and other associated determinations. In addition, the Issuer and its affiliates may act in other capacities with regard to the Products, such as Calculation Agent, Paying Agent and/or Index Sponsor.

Furthermore, the Issuer and its affiliates may issue other derivative instruments relating to the respective Underlying; introduction of such competing products may affect the value of the Products. The Issuer and its affiliated companies may receive non-public information relating to the Underlying, and neither the Issuer nor any of its affiliates undertake to make this information available to Investors. In addition, one or more of the Issuer's affiliated companies may publish research reports on the Underlying. Such activities could present conflicts of interest and may affect the value of the Products.

2.4.5 Disclosure with regard to Fees

Within the context of the offering and sale of the Products, the Issuer or any of its affiliates may directly or indirectly pay fees in varying amounts to third parties, such as distributors or investment advisors, or receive payment of fees in varying amounts, including those levied in association with the distribution of the Products, from third parties. Potential Investors should be aware that the Issuer may retain fees in part or in full. The Issuer or, as the case may be, the Lead Manager, upon request, will provide information on the amount of these fees.

2.4.6 Risks relating to UBS

For information on risks that may impact UBS's ability to execute its strategy or otherwise affect its business activities, financial condition, results of operations and prospects, refer to the "Risk factors" section of the latest annual report of UBS. The relevant annual report is incorporated by reference herein.

3. Definitions

Terms, used but not defined in the General Terms and Conditions, shall have the meaning as specified in the relevant Final Terms.

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| "Business Day" | means a day on which (other than Saturday and Sunday) (a) banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London and Zurich and (b) all relevant parts of the Trans-European Automated Real-Time Gross Settlement Express Transfer System 2 (" TARGET ") are operating to effect payments in Euro. |
| "Disruption Event" | means the occurrence of any of the following events: Price Source Disruption, FX Disruption Event, Market Disruption Event or Settlement Disruption Event. |
| "Investor" | means the person entitled to the rights conferred by the Products. |
| "Modified Following Adjusted" | means that if an Interest Payment Date would fall on a day which is not a Business Day, the payment date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event the Interest Payment Date shall be the immediately preceding Business Day. |
| "Settlement Currency" | means the currency used for the payment of any redemption amount or any other amount. |
| "Valuation Date" | means the Expiration Date and/or any Observation Date(s). |

4. Terms and Conditions

4.1 Status of the Products/Classification

The Products are direct, unconditional, unsecured and unsubordinated obligations of the Issuer and rank pari passu with all present and future, unsecured and unsubordinated obligations 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 given priority by law.

The Products do not represent a participation in any of the collective investment schemes pursuant to Art. 7 ss of the Swiss Federal Act on Collective Investment Schemes (CISA) and thus are not subject to the supervision of the Swiss Financial Market Supervisory Authority (FINMA). Therefore, Investors in the Products are not eligible for the specific investor protection under the CISA.

4.2 Form of Securities

The Products will be issued in the form of uncertificated securities. They do not take the form of actual securities but exist purely as book entries with a UBS- internal Valor number. During the entire life of the Products the uncertificated securities will be booked at UBS only. This means that the Products can only be transferred to Purchaser holding a securities account at UBS and that no external clearing is possible.

The productholder's entitlement to the uncertificated securities is based on his/her relevant UBS account statement. Uncertificated securities do not take the form of actual securities but exist purely as book-entries. Uncertificated securities may not be assigned or transferred except through transactions settled internally through UBS AG. Productholders will not be entitled to receive definitive Notes.

4.3 Adjustments

The scheduled Expiration Date and Time or any other date specified on the Final Terms may become subject to adjustments.

If a date would otherwise fall on a day that is not a Business Day, such date will be the first following day that is a Business Day. In case an Expiration Date and Time is postponed, the Redemption Date will be postponed accordingly.

The Lead Manager shall notify the Investors in accordance with the section headed 'Notices' of any adjustments which have been made. The details of such adjustments will be available for inspection at the offices of the Lead Manager.

4.4 Price Source Disruption Event

It may become impossible to obtain the relevant rate or price of the Underlying, as specified in the Final Terms during the lifetime of the Product and/or on the Expiration Date and Time due to one or more of the rate/price sources normally used in the relevant market for the Underlying being unavailable because an unscheduled bank closure is declared on short notice in the relevant country or due to the

occurrence of any other disruption (each a "Price Source Disruption Event"). The Calculation Agent will determine in good faith whether a Price Source Disruption Event has occurred.

A Price Disruption Event may lead to (i) a postponement of the Expiration Date and Time and therefore the redemption payment, (ii) to the use of an alternative source for the relevant exchange rate and or (iii) to the unilateral determination of the applicable exchange rate by the Calculation Agent.

Such postponement, use of alternative price source and/or determination of the applicable exchange rate by the Calculation Agent may affect, materially or otherwise, the Redemption Amount which the Investor will receive.

4.5 FX Disruption Event

4.5.1 Meaning of a FX Disruption Event

"FX Disruption Event" means the occurrence of any event on any day or any number of consecutive days as determined by the Calculation Agent in its sole and reasonable discretion that affects the Issuer's currency hedging (if any) with respect to the Products.

4.5.2 Consequences of an FX Disruption Event relating to the Products

Notwithstanding any other provisions contained herein the Calculation Agent may in its sole and reasonable discretion increase or decrease, as the case may be, the Redemption Amount to account for any income, loss, costs (including hedging costs) and expenses that are in the Calculation Agent's sole and reasonable discretion attributable to, or as a result of, the FX Disruption Event.

4.6 Settlement Disruption Event

4.6.1 Meaning of a Settlement Disruption Event

"Settlement Disruption Event" shall mean an event beyond the control of the Issuer as a result of which the Issuer cannot make delivery of the relevant asset(s) as specified in the relevant Final Terms on the Redemption Date.

4.6.2 Consequences of a Settlement Disruption Event

If the Lead Manager or the Calculation Agent reasonably determines that a Settlement Disruption Event has occurred and is continuing on the Redemption Date, then such Redemption Date shall be postponed to the first Business Day following the termination of the Settlement Disruption Event.

If a Settlement Disruption Event continues for several Business Days, then the Lead Manager or the Calculation Agent shall determine that the Redemption Date may not be further postponed and fix a Redemption Date, as the case may be, nonetheless continuing Settlement Disruption Events. In lieu of physical settlement and notwithstanding any other provision hereof, 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 Products.

For the avoidance of doubt, where a Settlement Disruption Event affects some but not all of the relevant assets comprising the redemption entitlement, the Redemption Date for the relevant assets not affected by the Settlement Disruption Event will be the originally designated Redemption Date.

Upon the occurrence of a Settlement Disruption Event, the Lead Manager shall give notice as soon as practicable to the Investors in accordance with the section headed 'Notices' stating that a Settlement Disruption Event has occurred and providing details thereof. Failure of the Calculation Agent to notify the parties of the occurrence of a Settlement Disruption Event shall not affect the validity of the occurrence and effect of such Settlement Disruption Event on the Products.

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

4.7 Taxation/Tax Call

Each Investor 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 Investor in any jurisdiction or by any governmental or regulatory authority.

The Issuer and the Paying Agent shall have the right, but not the duty, to withhold or deduct from any amounts otherwise payable to the Investor such amount as is necessary for the payment of any such taxes, duties, fees and/or charges.

In any case where any governmental or regulatory authority imposes on the Issuer the obligation to pay any such taxes, duties, fees and/or charges the Investor shall promptly reimburse the Issuer.

Potential Investors should inform themselves with regard to any tax consequences particular to their circumstances arising in the jurisdiction in which they are resident or domiciled for tax purposes in connection with the acquisition, ownership, redemption or disposal by them of any Products.

The Issuer may redeem all Products in case any present or future taxes, duties or governmental charges would be imposed by any jurisdiction in which the Issuer is or becomes subject to tax as a result of any change in laws or regulations of the relevant jurisdiction. The Lead Manager shall as soon as practicable notify the Investors of such redemption pursuant to the section headed 'Notices'.

4.8 Further Issues and reduction of Issue Size

The Issuer reserves the right to issue at any time, without consent of the Investors, further Products ranking *pari passu* with previously issued Products.

The Issuer may at any time purchase Products in the market, at any price and for any purpose. Such Products may be held, reissued, resold or at the option of the Issuer cancelled.

4.9 Severability and Amendment of Terms and Conditions

In the event any term or condition is, or becomes invalid, the validity of the remaining terms and conditions shall in no manner be affected thereby.

The Issuer shall be entitled to amend any term or condition for the purpose of clarifying any uncertainty, or correcting or supplementing the provisions herein in such manner as the Issuer deems necessary or desirable, provided that the Investor does not incur significant financial loss as a consequence thereof.

However, the Issuer shall at all times be entitled to amend any terms or conditions where, and to the extent, the amendment is necessitated as a consequence of legislation, decisions by courts of law, or decisions taken by governmental authorities.

4.10 Calculation

The Calculation Agent's calculations and determinations hereunder shall (save in the case of manifest error) be final and binding on the Investors. The Calculation Agent will have no responsibility for good faith errors or omissions in calculation of the value of the Underlying as provided herein.

The Investors shall not be entitled to make any claim against the Issuer in the case where the related exchange or any third party shall have made any misstatement as to the Underlying.

4.11 Substitution

The Issuer may at any time and from time to time, without the consent of the Investors, substitute for itself as obligor under the Products any affiliate, branch, subsidiary or holding company of UBS AG (the "New Issuer") provided that (i) the New Issuer shall assume all obligations that the Issuer owes to the Investors under or in relation to the Products, and (ii) such New Issuer shall at all times after such substitution have either:

- a credit rating equivalent to or better than the Issuer, or
- its obligations to Investors under the Products guaranteed by the Issuer.

If such substitution occurs, then any reference in the Product Documentation to the Issuer shall be construed as a reference to the New Issuer. Any substitution will be promptly notified to the Investor in accordance with the section headed 'Notices'. In connection with any exercise by the Issuer of the right of substitution, the Issuer shall not be obliged to carry any consequences suffered by individual Investors as a result of the exercise of such right and, accordingly, no Investor shall be entitled to claim from the Issuer any indemnification or repayment with respect of any consequence.

4.12 Illegality

If the Issuer determines that the performance of its obligations under the Products or that any arrangements made to hedge the Issuer's obligations have become illegal in whole or in part for any reason, the Issuer may cancel the Products by providing notice to Investors in accordance with the section headed 'Notices'.

If the Issuer cancels the Products then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Investor in respect of each Product held by an Investor. The amount shall be the fair market value of a Product less the costs incurred by the Issuer when unwinding any underlying related hedging arrangements, all as determined by the Lead Manager or Calculation Agent in its sole and absolute discretion. Payments will be made in such manner as will be notified to the Investors in accordance with the section headed 'Notices'.

4.13 Notices

4.13.1 To the Issuer

Notice may be given to the Issuer by delivering such notice in writing to UBS at Bahnhofstrasse 45, P.O.Box, CH-8098 Zurich or such other address as may be notified to the Investors in accordance with this section.

4.13.2 To the Investors

All notices 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 Products shall be published on the internet at www.ubs.com/keyinvest.

4.14 Statutory Period of Limitation

In accordance with Swiss law, claims of any kind against the Issuer in connection with the Products for, inter alia, payment of any amount, or, if applicable, delivery of any Underlying will be prescribed 10 years after the date on which the early or regular redemption of the Products (whichever is applicable), has become due.

4.15 Proceeds from the Sale of Products

The net proceeds from the sale of the Products will be used by the Issuer for general corporate purposes.

The Issuer has taken the necessary steps to secure its obligations.

4.16 Applicable Law and Jurisdiction

The form and contents of the Products are subject to and governed by Swiss law. Exclusive place of jurisdiction for all disputes affecting the Products and the rights and obligations attached thereto shall be Zurich, Switzerland.



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

On 30 June 2017, UBS Group's common equity tier 1 ("CET1") capital ratio was 13.5% on a fully applied basis and 14.8% on a phase-in basis and the CET1 leverage ratio was 3.7% on a fully applied basis and 4.1% on a phase-in basis, the gone concern loss-absorbing capacity ratio was 14.0% on a fully applied basis and 10.4% on a phase-in basis, and the gone concern leverage ratio was 3.9% on a fully applied basis and 2.9% on a phase-in basis.¹ On the same date, invested assets stood at CHF 2,922 billion, equity attributable to UBS Group AG shareholders was CHF 51,744 million and market capitalisation was CHF 62,553 million. On the same date, UBS employed 59,470 people².

On 30 June 2017, UBS AG (consolidated) CET1 capital ratio was 13.8% on a fully applied basis and 15.1% on a phase-in basis and the CET1 leverage ratio was 3.8% on a fully applied basis and 4.2% on a phase-in basis, the gone concern loss-absorbing capacity ratio was 14.4% on a fully applied basis and 10.9% on a phase-in basis, and the gone concern leverage ratio was 3.9% on a fully applied basis and 3.0% on a phase-in basis.¹ On the same date, invested assets stood at CHF 2,922 billion and equity attributable to UBS AG shareholders was CHF 51,735 million. On the same date, UBS AG Group employed 48,476 people².

The rating agencies Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"), Moody's Investors Service Ltd. ("Moody's"), Fitch Ratings Limited ("Fitch Ratings"), and Scope Ratings AG ("Scope Ratings") have published solicited credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to fulfil in a timely manner payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing. The ratings from Fitch Ratings, Standard & Poor's and Scope Ratings may be attributed a plus or minus sign, and those from Moody's a number. These supplementary attributes indicate the relative position within the respective rating class. UBS AG has a long-term counterparty credit rating of A+ (outlook: stable) from Standard & Poor's, long-term senior debt rating of A1 (outlook: stable) from Moody's, long-term issuer default rating of A+ (outlook: stable) from Fitch Ratings and issuer credit-strength rating of A+ (outlook: positive) from Scope Ratings.

An explanation of the significance of ratings may be obtained from the rating agencies. Generally,

¹ All figures based on the Basel III framework as applicable to Swiss systemically relevant banks. Refer to the "Capital management" section of the Annual Report 2016, the UBS Group Second Quarter 2017 Report and the UBS AG Second Quarter 2017 Report, as defined herein, for more information.

² Full-time equivalents.

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. All the above-mentioned rating agencies are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011.

No profit forecasts or estimates are included in this document.

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

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

2. Corporate Information

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

The company was incorporated under the name SBC AG on 28 February 1978 for an unlimited duration and entered in the Commercial Register of Canton Basel-City on that day. On 8 December 1997, the company changed its name to UBS AG. The company in its present form was created on 29 June 1998 by the merger of Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872). UBS AG is entered in the Commercial Registers of Canton Zurich and Canton Basel-City. The registration number is CHE-101.329.561.

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

According to article 2 of the articles of association of UBS AG dated 4 May 2016 ("Articles of Association"), the purpose of UBS AG is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad. UBS AG may establish branches and representative offices as well as banks, finance companies and other enterprises of any kind in Switzerland and abroad, hold equity interests in these companies, and conduct their management. UBS AG is authorized to acquire, mortgage and sell real estate and building rights in Switzerland and abroad. UBS AG may borrow and invest money on the capital markets. UBS AG is part of the group of companies controlled by the group parent company UBS Group AG. It may promote the interests of the group parent company or other group companies. It may provide loans, guarantees and other kinds of financing and security for group companies.

The addresses and telephone numbers of UBS AG's two registered offices and principal places of business are: Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, telephone +41 44 234 1111; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, telephone +41 61 288 5050.

3. Business Overview

3.1 Organizational Structure of UBS AG

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

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

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

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

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

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

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

UBS continues to consider further changes to the Group's legal structure in response to regulatory requirements and other external developments, including the anticipated exit of the United Kingdom from the European Union. Such changes may include the transfer of operating subsidiaries of UBS AG to become direct subsidiaries of UBS Group AG, further consolidation of operating subsidiaries in the EU and adjustments to the booking entity or location of products and services. These structural changes are being discussed on an ongoing basis with the Swiss Financial Market

Supervisory Authority FINMA and other regulatory authorities and remain subject to a number of uncertainties that may affect their feasibility, scope or timing.

UBS Group AG's interests in subsidiaries and other entities as of 31 December 2016, including interests in significant subsidiaries, are discussed in "Note 28 Interests in subsidiaries and other entities" to the UBS Group AG's consolidated financial statements included in the UBS Group AG and UBS AG Annual Report 2016 published on 10 March 2017 ("Annual Report 2016").

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

UBS AG is the parent company of, and conducts a significant portion of its operations through, subsidiaries. As such, to a certain extent, it is dependent on certain of its subsidiaries. In addition, UBS Business Solutions AG provides substantial services to group companies including UBS AG and its subsidiaries. To this extent, UBS AG is dependent on certain of the entities of the UBS AG Group and of the UBS Group.

3.2 Business Divisions and Corporate Center

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

3.2.1 Wealth Management

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

3.2.2 Wealth Management Americas

Wealth Management Americas provides advice-based solutions through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of their clients. Its business is primarily domestic US but includes Canada and international business booked in the US.

3.2.3 Personal & Corporate Banking

Personal & Corporate Banking provides comprehensive financial products and services to private, corporate and institutional clients in Switzerland and is among the leading players in the private and corporate loan market in Switzerland, with a well-collateralized and conservatively managed lending portfolio. Its business is a central element of UBS's universal bank delivery model in Switzerland. Personal & Corporate Banking works with the wealth management, investment bank and asset

management businesses to ensure that clients receive the best products and solutions for their specific financial needs. Personal & Corporate Banking is also an important source of growth for other business divisions in Switzerland through client referrals. In addition, Personal & Corporate Banking manages a substantial part of UBS's Swiss infrastructure and banking products platform, both of which are leveraged across the Group.

3.2.4 Asset Management

Asset Management provides investment management products and services, platform solutions and advisory support to institutions, wholesale intermediaries and wealth management clients around the world, with an onshore presence in 22 countries. Asset Management's global investment capabilities include all major traditional and alternative asset classes.

3.2.5 Investment Bank

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

3.2.6 Corporate Center

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

3.3 Competition

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

3.4 Recent Developments

3.4.1 UBS AG (consolidated) key figures

Selected consolidated financial information

UBS AG derived the selected consolidated financial information included in the table below for the years ended 31 December 2016, 2015 and 2014, except where indicated, from the Annual Report 2016, which contains the audited consolidated financial statements of UBS AG, as well as additional unaudited consolidated financial information, for the year ended 31 December 2016 and comparative figures for the years ended 31 December 2015 and 2014. The selected consolidated financial information included in the table below for the six months ended 30 June 2017 and 30 June 2016 was derived from the UBS AG Second Quarter 2017 Report, which contains UBS AG interim consolidated financial statements (unaudited), as well as additional unaudited consolidated financial information, for the six months ended 30 June 2017 and comparative figures for the six months ended 30 June 2016.

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and are stated in Swiss francs ("CHF"). Information for the years ended 31 December 2016, 2015 and 2014 which is indicated as being unaudited in the table below was included in the Annual Report 2016, but has not been audited on the basis that the respective disclosures are not required under IFRS, and therefore are not part of the audited financial statements. The Annual Report 2016 and the UBS AG Second Quarter 2017 Report are incorporated by reference herein. The section "Measurement of performance" of the Annual Report 2016 contains an explanation of the use of the information contained under the heading "Key performance indicators" in the table below and the definitions of each of these key performance indicators. Prospective investors should read the whole of this Prospectus and the documents incorporated by reference herein and should not rely solely on the summarized information set out below:

| CHF million, except where indicated | As of or for the six months ended | | As of or for the year ended | | |
|---|-----------------------------------|---------|--|----------|----------|
| | 30.6.17 | 30.6.16 | 31.12.16 | 31.12.15 | 31.12.14 |
| | <i>unaudited</i> | | <i>audited, except where indicated</i> | | |
| Results | | | | | |
| Operating income | 14,958 | 14,254 | 28,421 | 30,605 | 28,026 |
| Operating expenses | 11,876 | 11,818 | 24,352 | 25,198 | 25,557 |
| Operating profit / (loss) before tax | 3,082 | 2,436 | 4,069 | 5,407 | 2,469 |
| Net profit / (loss) attributable to shareholders | 2,354 | 1,723 | 3,207 | 6,235 | 3,502 |
| Key performance indicators | | | | | |
| Profitability | | | | | |
| Return on tangible equity (%) ¹ | 10.4 | 7.3 | 6.9* | 13.5* | 8.2* |
| Cost / income ratio (%) ² | 79.2 | 82.9 | 85.6* | 82.0* | 90.9* |
| Growth | | | | | |
| Net profit growth (%) ³ | 36.6 | (46.2) | (48.6)* | 78.0* | 10.4* |
| Net new money growth for combined wealth management businesses (%) ⁴ | 2.7 | 3.8 | 2.1* | 2.2* | 2.5* |
| Resources | | | | | |
| Common equity tier 1 capital ratio (fully applied, %) ^{5,6} | 13.8 | 15.0 | 14.5* | 15.4* | 14.2* |

| | | | | | |
|---|-----|---|------|---|---|
| Going concern leverage ratio (fully applied, %) ^{7, 8} | 4.2 | - | 4.2* | - | - |
|---|-----|---|------|---|---|

Additional information
Profitability

| | | | | | |
|---|------|------|-------|-------|-------|
| Return on equity (RoE) (%) ⁹ | 9.0 | 6.3 | 5.9* | 11.7* | 7.0* |
| Return on risk-weighted assets, gross (%) ¹⁰ | 13.3 | 13.4 | 13.2* | 14.3* | 12.6* |
| Return on leverage ratio denominator, gross (%) ¹¹ | 3.4 | 3.2 | 3.2* | - | - |

Resources

| | | | | | |
|---|---------|---------|----------|----------|-----------|
| Total assets | 891,763 | 990,135 | 935,353 | 943,256 | 1,062,327 |
| Equity attributable to shareholders | 51,735 | 53,353 | 53,662 | 55,248 | 52,108 |
| Common equity tier 1 capital (fully applied) ⁶ | 32,558 | 32,184 | 32,447 | 32,042 | 30,805 |
| Common equity tier 1 capital (phase-in) ⁶ | 35,887 | 38,913 | 39,474 | 41,516 | 44,090 |
| Risk-weighted assets (fully applied) ⁶ | 236,552 | 214,210 | 223,232* | 208,186* | 217,158* |
| Common equity tier 1 capital ratio (phase-in, %) ^{5, 6} | 15.1 | 17.9 | 17.5* | 19.5* | 19.9* |
| Going concern capital ratio (fully applied, %) ⁸ | 15.3 | - | 16.3* | - | - |
| Going concern capital ratio (phase-in, %) ⁸ | 19.5 | - | 22.6* | - | - |
| Going concern loss-absorbing capacity ratio (fully applied, %) ⁸ | 14.4 | - | 13.3* | - | - |
| Leverage ratio denominator (fully applied) ¹² | 861,919 | 899,075 | 870,942* | 898,251* | 999,124* |
| Common equity tier 1 leverage ratio (fully applied, %) ¹² | 3.8 | 3.6 | 3.7* | 3.6* | 3.1* |
| Going concern leverage ratio (phase-in, %) ^{7, 8} | 5.4 | - | 5.8* | - | - |
| Going concern leverage ratio (fully applied, %) ⁸ | 3.9 | - | 3.4* | - | - |

Other

| | | | | | |
|---|--------|--------|---------|---------|---------|
| Invested assets (CHF billion) ¹³ | 2,922 | 2,677 | 2,821 | 2,689 | 2,734 |
| Personnel (full-time equivalents) | 48,476 | 57,387 | 56,208* | 58,131* | 60,155* |

* unaudited

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

² Operating expenses / operating income before credit loss (expense) or recovery.

³ Change in net profit attributable to shareholders from continuing operations between current and comparison periods / net profit attributable to shareholders from continuing operations of comparison period. Not meaningful and not included if either the reporting period or the comparison period is a loss period.

⁴ Net new money growth for combined wealth management businesses is calculated as the aggregate of the net new money for the period (annualized as applicable) of the business divisions Wealth Management and Wealth Management Americas / aggregate invested assets at the beginning of the period of the business divisions Wealth Management and Wealth Management Americas. Net new money and invested assets are each derived from the "Wealth Management" and "Wealth Management Americas" sections of the management report contained in the UBS Group Second Quarter 2017 Report, under "UBS business divisions and Corporate Center", and in the Annual Report 2016, under "Financial and operating performance". Net new money growth for combined wealth management businesses is based on adjusted net new money, which excludes the negative effect on net new money in 2015 of CHF 9.9 billion in Wealth Management from UBS's balance sheet and capital optimization program.

⁵ Common equity tier 1 capital / risk-weighted assets.

⁶ Based on the Basel III framework as applicable for Swiss systemically relevant banks.

⁷ Total going concern capital / leverage ratio denominator.

⁸ Based on the revised Swiss SRB framework that became effective on 1 July 2016. Figures for prior periods are not available.

⁹ Net profit attributable to shareholders (annualized as applicable) / average equity attributable to shareholders.

¹⁰ Based on fully applied risk-weighted assets. Figures as of 31 December 2015 and 31 December 2014 were derived from the UBS Group 2016 Form 20-F and do not correspond to the figures contained in the UBS Group 2015 Form 20-F, which were calculated based on phase-in risk-weighted assets.

¹¹ Based on the fully applied leverage ratio denominator. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. For periods prior to 31 December 2015 the leverage ratio denominator is calculated in accordance with former Swiss SRB rules. Therefore the figures for the periods ended on 31 December 2015 and 31 December 2014 are not presented as they are not available on a fully comparable basis.

¹² Calculated in accordance with Swiss SRB rules. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable.

¹³Includes invested assets for Personal & Corporate Banking.

3.4.2 *Regulatory and legal developments*

Transfer of shared services functions to UBS Business Solutions AG

In the second quarter of 2017, UBS transferred shared services functions in Switzerland from UBS AG to UBS Business Solutions AG, UBS's Group service company and a wholly owned subsidiary of UBS Group AG. The transfer was recorded retrospectively as of 1 April 2017 and resulted in the derecognition of CHF 706 million of assets and CHF 259 million of liabilities, the granting of a loan of CHF 140 million and a reduction in share premium within equity attributable to shareholders of CHF 307 million for UBS AG consolidated.

Following the transfer, UBS Business Solutions AG charges other legal entities within the Group for services provided, including a markup on costs incurred. For UBS AG, this resulted in a decrease in direct costs recognized as personnel and depreciation expenses, which was more than offset by an increase in general and administrative expenses related to the service charge from UBS Business Solutions AG. In addition, entities within the UBS AG consolidated scope now charge UBS Business Solutions AG for certain services provided to Swiss shared services functions, resulting in an increase in other income for UBS AG. Overall, the new shared services model involving UBS Business Solutions AG resulted in a decrease in UBS AG consolidated net profit of approximately CHF 50 million in the second quarter of 2017.

The effect of the transfer on the risk-weighted assets and leverage ratio denominator of UBS AG consolidated and UBS AG standalone was not material.

UBS expects to complete the transfer of shared services functions in the UK in the fourth quarter of 2017.

US Department of Labor fiduciary rule becomes effective

The US Department of Labor ("DOL") fiduciary rule became effective on 9 June 2017. The rule remains under review by the DOL, and the effective dates of some requirements and conditions to exemptions have been deferred to January 2018. The rule significantly expands the circumstances that cause a person to become a fiduciary subject to the Employee Retirement Income Security Act of 1974 in relation to corporate and individual retirement plans. Wealth Management Americas has implemented changes to its compensation programs for financial advisors in relation to retirement plan accounts as well as to the product offerings for these plans. These changes are intended to comply with the rule while minimizing disruption to clients until all aspects of the rule become final. The effects of the DOL fiduciary rule on the financial performance of UBS's business remain uncertain.

Refer to "Regulatory and legal developments" in the UBS Group AG second quarter 2017 report, published on 28 July 2017, ("UBS Group Second Quarter 2017 Report") for information on further recent regulatory and legal developments.

3.5 Trend Information

As indicated in the UBS Group Second Quarter 2017 Report, improved investor sentiment and enhanced confidence have translated into improvements in wealth management client activity levels. However, the persistence of low volatility levels and seasonality factors may continue to affect overall client activity. In addition, while UBS expects the global economic recovery to strengthen, geopolitical tensions and macroeconomic uncertainty still pose risks to client sentiment. Low and negative interest rates, particularly in Switzerland and the eurozone, put pressure on net interest margins, which may be partially offset by the effect of a further normalization of US monetary policy. Implementing Switzerland's new bank capital standards and further changes to national and international regulatory frameworks for banks will result in increased capital requirements, interest and operating costs. UBS is well positioned to mitigate these challenges and benefit from further improvements in market conditions.

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

4. Administrative, Management and Supervisory Bodies of UBS AG

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

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

The supervision and control of the EB remains with the BoD. The Articles of Association and the Organization Regulations of UBS AG with their annexes govern the authorities and responsibilities of the two bodies.

4.1 Board of Directors

The BoD is the most senior body of UBS AG. The BoD consists of at least five and a maximum of twelve members. All the members of the BoD are elected individually by the Annual General Meeting of Shareholders ("AGM") for a term of office of one year, which expires after completion of the next AGM. Shareholders also elect the Chairman upon proposal of the BoD.

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

4.1.1 Members of the Board of Directors

| Member and business address | Title | Term of office | Current principal positions outside UBS AG |
|---|---------------------------------|----------------|--|
| Axel A. Weber UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Chairman | 2018 | Chairman of the Board of Directors of UBS Group AG; board member of the Swiss Bankers Association; member of the Board of Trustees of Avenir Suisse; Advisory Board member of the "Beirat Zukunft Finanzplatz"; board member of the Swiss Finance Council; Chairman of the board of the Institute of International Finance; President of the International Monetary Conference; member of the European Financial Services Round Table; member of the European Banking Group; member of the Monetary Economics and International Advisory Panel, Monetary Authority of Singapore; member of the Group of Thirty, Washington, D.C.; Chairman of the DIW Berlin Board of Trustees; Advisory Board member of the Department of Economics at the University of Zurich; member of the Trilateral Commission. |
| Michel Demaré Syngenta International AG, Schwarzwaldallee 215, CH-4058 Basel | Independent Vice Chairman | 2018 | Independent Vice-Chairman of the Board of Directors of UBS Group AG; Vice Chairman of the board of Syngenta; board member of Louis-Dreyfus Commodities Holdings BV; Vice Chairman of the Supervisory Board of IMD, Lausanne; Chairman of the Syngenta Foundation for Sustainable Agriculture; Advisory Board member of the Department of Banking and Finance at the University of Zurich. |
| David Sidwell UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Member | 2018 | Senior Independent Director of the Board of Directors of UBS Group AG; Senior Advisor at Oliver Wyman, New York; board member of Chubb Limited; board member of GAVI Alliance; Chairman of the Board of Village Care, New York; Director of the National Council on Aging, Washington D.C. |

| | | | |
|---|--------|------|--|
| Reto Francioni UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Member | 2018 | Member of the Board of Directors of UBS Group AG; professor, University of Basel; board member of Coca-Cola HBC AG; Chairman of the board of Swiss International Air Lines AG; board member of Francioni AG; board member of MedTech Innovation Partners AG. |
| Ann F. Godbehere UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Member | 2018 | Member of the Board of Directors of UBS Group AG; board member of Rio Tinto plc (chairman of the audit committee); board member of Rio Tinto Limited (chairman of the audit committee); board member of British American Tobacco plc. |
| William G. Parrett UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Member | 2018 | Member of the Board of Directors of UBS Group AG; board member of the Eastman Kodak Company (chairman of the audit and finance committee); board member of the Blackstone Group LP (chairman of the audit committee and chairman of the conflicts committee); board member of Thermo Fisher Scientific Inc. (chairman of the audit committee); Chairman of the Board of Conduent Inc; member of the Committee on Capital Markets Regulation; member of the Carnegie Hall Board of Trustees; Past Chairman of the board of the United States Council for International Business; Past Chairman of United Way Worldwide. |
| Julie G. Richardson UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Member | 2018 | Member of the Board of Directors of UBS Group AG; board member of The Hartford Financial Services Group, Inc. (chairman of the audit committee); Board member of Yext (chairman of the audit committee); board member of Arconic Inc.; board member of Vereit, Inc. (chairman of the compensation committee). |
| Isabelle Romy Froriep Legal AG, Bellerivestrasse 201, CH-8034 Zurich | Member | 2018 | Member of the Board of Directors of UBS Group AG; partner and board member at Froriep Legal AG, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; vice chairman of the Sanction Commission of SIX Swiss Exchange; member of the Fundraising Committee of the Swiss National Committee for UNICEF; Supervisory Board member of the CAS program Financial Regulation of the University of Bern and University of Geneva. |
| Robert W. Scully UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Member | 2018 | Member of the Board of Directors of UBS Group AG; board member of Chubb Limited; board member of Zoetis Inc.; board member of KKR & Co LP; board member of the Dean's Advisors of Harvard Business School. |
| Beatrice Weder di Mauro Johannes Gutenberg- University Mainz, Jakob Welder-Weg 4, D-55099 Mainz | Member | 2018 | Member of the Board of Directors of UBS Group AG; distinguished fellow at INSEAD in Singapore (on leave from the University of Mainz); Supervisory Board member of Robert Bosch GmbH; board member of Bombardier Inc.; member of the ETH Zurich Foundation Board of Trustees; Economic Advisory Board member of Fraport AG; Advisory Board member of Deloitte Germany; Deputy Chairman of the University Council of the University of Mainz. |
| Dieter Wemmer Allianz SE, Königinstr. 28, 80802 Munich, Germany | Member | 2018 | Member of the Board of Directors of UBS Group AG; CFO at Allianz SE; Administrative Board member of Allianz Asset Management AG and Allianz Investment Management SE, both Allianz Group mandates; member of the CFO Forum; member of the Systemic Risk Working Group of the European Central Bank and the Bank for International Settlements; Chairman of the Economic & Finance Committee of Insurance Europe; member of the Berlin Center of Corporate Governance. |

4.1.2 Organisational principles and structure

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

The BoD committees comprise the Audit Committee and the Risk Committee. The BoD has also established a Special Committee, which is an ad-hoc committee, called and held on an ad-hoc basis, focused on internal and regulatory investigations.

4.1.3 Audit Committee

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

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

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

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

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

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

4.2 Executive Board

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

4.2.1 Members of the Executive Board

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

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

4.3 Potential Conflicts of Interest

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

those of UBS AG. Conflicts of interest may potentially arise from these positions or interests. For example, it cannot be excluded that a member of the BoD or EB has or will have a function within a company, the shares of which are or will be traded by UBS AG or which has or will have a business relationship with UBS AG. UBS AG is confident that its internal corporate governance practices and its compliance with relevant legal and regulatory provisions reasonably ensure that any conflicts of interest of the type described above are appropriately managed, including through disclosure when appropriate.

5. Auditors

Based on article 31 of the Articles of Association, UBS AG shareholders elect the auditors for a term of office of one year. At the AGM of 7 May 2015, 4 May 2016 and 2 March 2017, Ernst & Young Ltd., Aeschengraben 9, CH-4002 Basel ("Ernst & Young") were elected as auditors for the consolidated and standalone financial statements of UBS AG for a one-year term.

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

6. Major Shareholders of UBS AG

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

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

7.1 Historical Annual Financial Information

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

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

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

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

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

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

7.2 Auditing of Historical Annual Financial Information

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

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

7.3 Interim Financial Information

Reference is also made to (i) the UBS Group AG first quarter 2017 report published on 28 April 2017 ("UBS Group First Quarter 2017 Report") and the UBS AG first quarter 2017 report, published on 3 May 2017 ("UBS AG First Quarter 2017 Report"), which contain information on the financial condition and results of operations, including the interim consolidated financial statements, of UBS Group AG (consolidated) and UBS AG (consolidated), respectively, as of and for the period ended 31 March 2017; and to (ii) the UBS Group Second Quarter 2017 Report and the UBS AG second quarter 2017 report, published on 3 August 2017 ("UBS AG Second Quarter 2017 Report"), which contain information on the financial condition and results of operations, including the interim consolidated financial statements, of UBS Group AG (consolidated) and UBS AG (consolidated), respectively, as of and for the period ended 30 June 2017. The interim consolidated financial statements are not audited.

7.4 Incorporation by Reference

The Annual Report 2015, the Annual Report 2016, the Standalone Financial Statements, the UBS Group First Quarter 2017 Report, the UBS AG First Quarter 2017 Report, the UBS Group Second Quarter 2017 Report and the UBS AG Second Quarter 2017 Report are fully incorporated in, and form an integral part of, this document.

7.5 Litigation, Regulatory and Similar Matters

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

Such matters are subject to many uncertainties and the outcome and the timing of resolution are often difficult to predict, particularly in the earlier stages of a case. There are also situations where UBS may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which UBS believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. UBS makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more

likely than not that UBS has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against UBS, but are nevertheless expected to be, based on UBS's experience with similar asserted claims. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to select matters could be significant.

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

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

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

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in "Note 13a Provisions" to the UBS AG's interim consolidated financial statements included in UBS AG Second Quarter 2017 Report. It is not practicable to provide an aggregate estimate of liability for UBS's litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require UBS to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, that have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although it therefore cannot provide a numerical estimate of the future losses that could arise from litigation, regulatory and similar matters, UBS believes that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. For example, the Non-Prosecution Agreement ("NPA") described in item 5 of this section, which UBS entered into with the US Department of Justice ("DOJ"), Criminal Division, Fraud Section in connection with 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 pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, paid a USD 203 million fine and is subject to a three-year term of probation. A guilty plea to, or conviction of, a crime (including as a result of termination of the NPA) could have material consequences for UBS. Resolution of regulatory proceedings may require UBS to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations and may permit financial market utilities

to limit, suspend or terminate UBS's participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining UBS's capital requirements. Information concerning UBS's capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" section of UBS Group Second Quarter 2017 Report.

Provisions for litigation, regulatory and similar matters by business division and Corporate Center unit¹

| CHF million | Wealth | | | | Investment Bank | CC – Services | CC – Non-core and Legacy | | UBS |
|---|-------------------|---------------------|------------------------------|------------------|-----------------|---------------|--------------------------|--------------|--------------|
| | Wealth Management | Management Americas | Personal & Corporate Banking | Asset Management | | | CC – Group ALM | Portfolio | |
| Balance as of 31 December 2016 | 292 | 425 | 78 | 5 | 616 | 259 | 0 | 1,585 | 3,261 |
| Balance as of 31 March 2017 | 244 | 385 | 77 | 4 | 404 | 255 | 0 | 1,550 | 2,918 |
| Increase in provisions recognized in the income statement | 1 | 44 | 0 | 5 | 0 | 0 | 0 | 2 | 53 |
| Release of provisions recognized in the income statement | 0 | (2) | 0 | (4) | 0 | 0 | 0 | (36) | (43) |
| Provisions used in conformity with designated purpose | (1) | (50) | 0 | 0 | 0 | (2) | 0 | (356) | (410) |
| Foreign currency translation / unwind of discount | 6 | (16) | 0 | 0 | (12) | 0 | 0 | (50) | (72) |
| Balance as of 30 June 2017 | 249 | 361 | 77 | 5 | 391 | 253 | 0 | 1,110 | 2,446 |

¹ Provisions, if any, for the matters described in this section are recorded in Wealth Management (item 3), Wealth Management Americas (item 4), the Investment Bank (item 8), Corporate Center – Services (item 7) and Corporate Center – Non-core and Legacy Portfolio (item 2). Provisions, if any, for the matters described in items 1 and 6 of this section are allocated between Wealth Management and Personal & Corporate Banking, and provisions, if any, for the matters described in this section in item 5 are allocated between the Investment Bank, Corporate Center – Services and Corporate Center – Non-core and Legacy Portfolio.

1. Inquiries regarding cross-border wealth management businesses

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

The Swiss Federal Administrative Court ruled in 2016 that in the administrative assistance proceedings related to a French bulk request, UBS has the right to appeal all final FTA client data disclosure orders.

Since 2013, UBS (France) S.A. and UBS AG and certain former employees have been under investigation in France for alleged complicity in having illicitly solicited clients on French territory and regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. In connection with this investigation, the investigating judges ordered UBS AG to provide bail ("caution") of EUR 1.1 billion and UBS (France) S.A. to post bail of EUR 40 million, which was reduced on appeal to EUR 10 million.

In February 2016, the investigating judges notified UBS AG and UBS (France) S.A. that they have closed their investigation. In July 2016, UBS AG and UBS (France) S.A. received the National Financial Prosecutor's recommendation ("réquisitoire"). In March 2017, the investigating judges issued the trial order ("ordonnance de renvoi") that charges UBS AG and UBS (France) S.A., as well as various former employees, with illicit solicitation of clients on French territory and with participation in the laundering of the proceeds of tax fraud, and which transfers the case to court. The trial schedule has not yet been announced.

In February 2016, UBS was notified by the Belgian investigating judge that it is under formal investigation ("inculpé") regarding the laundering of proceeds of tax fraud and of banking, financial solicitation by unauthorized persons and serious tax fraud.

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

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

UBS's balance sheet at 30 June 2017 reflected provisions with respect to matters described in this item 1 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

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

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

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

UBS was not a significant originator of US residential loans. A branch 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 has been named as a defendant in lawsuits relating to its role as underwriter and issuer of RMBS.

In April 2017, UBS reached a final settlement in a lawsuit brought in the US District Court for the District of Kansas by the National Credit Union Administration ("NCUA") as conservator for certain failed credit unions, asserting misstatements and omissions in the offering documents for USD 1.15 billion in original principal balance of RMBS purchased by the credit unions. UBS and the NCUA settled this matter for USD 445 million. A similar case brought by the NCUA in the US District Court for the Southern District of New York ("SDNY") was settled in 2016.

UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS in connection with certain of these matters.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which the representations related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust aggregating USD 4.1 billion in original principal balance. Of this amount, UBS considers claims relating to USD 2 billion in original principal balance to be resolved, including claims barred by the statute of limitations. Substantially all of the remaining claims are in litigation, including the matters described in the next paragraph. UBS believes that new demands to repurchase US residential mortgage loans are time-barred under a decision rendered by the New York Court of Appeals.

In 2012, certain RMBS trusts filed an action ("Trustee Suit") in the SDNY seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations with an original principal balance of approximately USD 2 billion, for which Assured Guaranty Municipal Corp., a financial guaranty insurance company, had previously demanded repurchase. Approximately 9,000 loans were at issue in a bench trial in the SDNY in 2016, following which the court issued an order ruling on numerous legal and factual issues and applying those rulings to 20 exemplar loans. The court further ordered that a lead master be appointed to apply the court's rulings to the loans that remain at issue following the trial. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions.

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

UBS's balance sheet at 30 June 2017 reflected a provision with respect to matters described in this item 2 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

3. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC ("BMIS") investment fraud, UBS AG, UBS (Luxembourg) S.A. (now UBS Europe SE, Luxembourg branch) 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 Europe SE, Luxembourg branch, 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 trustee for the liquidation of BMIS ("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. The Luxembourg Court of Appeal has found in favor of UBS and dismissed all of these test case appeals, confirming that the claims are inadmissible. The Luxembourg Supreme Court has also dismissed a further appeal brought by the claimant in one of the test cases.

In the US, the BMIS Trustee filed claims in 2010 against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. The total amount claimed against all defendants in these actions was not less than USD 2 billion. Following a motion by UBS, in 2011, the SDNY dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In 2013, the Second Circuit affirmed the District Court's decision and, in 2014, the US Supreme Court denied the BMIS Trustee's petition seeking review of the Second Circuit ruling. In 2016, the bankruptcy court issued an opinion dismissing the remaining claims for recovery of subsequent transfers of fraudulent conveyances and preference payments on the ground that the US Bankruptcy Code does not apply to transfers that occurred outside the US, and judgment was entered in March 2017. The BMIS Trustee has appealed that ruling. In 2014, several claims, including a purported class action, were filed in the US by BMIS customers against UBS entities, asserting claims similar to the ones made by the BMIS Trustee, seeking unspecified damages. One claim was voluntarily withdrawn by the plaintiff. In 2015,

following a motion by UBS, the SDNY dismissed the two remaining claims on the basis that the New York courts did not have jurisdiction to hear the claims against the UBS entities. The plaintiff in one of those claims has appealed the dismissal.

In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds. In 2015, a court of appeal ordered UBS to pay EUR 49 million, plus interest of approximately EUR 15.3 million.

4. Puerto Rico

Declines since August 2013 in the market prices of Puerto Rico municipal bonds and of closed-end funds ("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 2.1 billion, of which claims with aggregate claimed damages of USD 1.1 billion have been resolved through settlements, arbitration or withdrawal of the claim. The claims are filed by clients in Puerto Rico who own the funds or Puerto Rico municipal bonds and / or who used their UBS account assets as collateral for UBS non-purpose loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the funds and of the loans. A shareholder derivative action was filed in 2014 against various UBS entities and current and certain former directors of the funds, alleging hundreds of millions of US dollars in losses in the funds. In 2015, defendants' motion to dismiss was denied. Defendants' requests for permission to appeal that ruling were denied by the Puerto Rico Court of Appeals and the Puerto Rico Supreme Court. In 2014, a federal class action complaint also was filed against various UBS entities, certain members of UBS PR senior management and the co-manager of certain of the funds, seeking damages for investor losses in the funds during the period from May 2008 through May 2014. In 2016, defendants' motion to dismiss was granted in part and denied in part. In 2015, a class action was filed in Puerto Rico state court against UBS PR seeking equitable relief in the form of a stay of any effort by UBS PR to collect on non-purpose loans it acquired from UBS Bank USA in December 2013 based on plaintiffs' allegation that the loans are not valid. The trial court denied defendant's motion to dismiss the action based on a forum selection clause in the loan agreements. The Puerto Rico Supreme Court reversed that decision and remanded the case back to the trial court for reconsideration.

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

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

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico ("System") against over 40 defendants, including UBS PR, which was named in connection with its underwriting and consulting services. Plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. In December 2016, the court granted the System's request to join the action as a plaintiff, but ordered that plaintiffs must file an amended complaint. In March 2017, the court denied defendants' motion to dismiss the amended complaint.

Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in 2012. Beginning in 2012, two federal class action complaints, which were subsequently consolidated, were filed against various UBS entities, certain of the funds and certain members of UBS PR senior management, seeking damages for investor losses in the funds during the period from January 2008 through May 2012 based on allegations similar to those in the SEC action. In 2016, the court denied plaintiffs' motion for class certification. In March 2017, the US Court of Appeals for the First Circuit denied plaintiffs' petition seeking permission to bring an interlocutory appeal challenging the denial of their motion for class certification.

In 2015, certain agencies and public corporations of the Commonwealth of Puerto Rico ("Commonwealth") defaulted on certain interest payments, in 2016, the Commonwealth defaulted on payments on its general obligation debt ("GO Bonds"), and in 2017 the Commonwealth defaulted on payments on its debt backed by the Commonwealth's Sales and Use Tax ("COFINA Bonds") as well as on bonds issued by the Commonwealth's Employee Retirement System ("ERS Bonds"). The funds hold significant amounts of both COFINA and ERS Bonds and the defaults on interest payments are expected to adversely affect dividends from the funds. Executive orders of the Governor that have diverted funds to pay for essential services instead of debt payments and stayed any action to enforce creditors' rights on the Puerto Rico bonds continue to be in effect. In 2016, US federal legislation created an oversight board with power to oversee Puerto Rico's finances and to restructure its debt. The oversight board is authorized to impose, and has imposed, a stay on exercise of creditors' rights. In May and June 2017, the oversight board placed the GO, COFINA and ERS Bonds, among others, into a bankruptcy-like proceeding under the supervision of a Federal District Judge as authorized by the oversight board's enabling statute. These events, further defaults, any further legislative action to create a legal means of restructuring Commonwealth obligations or to impose additional oversight on the Commonwealth's finances, or any restructuring of the Commonwealth's obligations may increase the number of claims against UBS concerning Puerto Rico securities, as well as potential damages sought.

UBS's balance sheet at 30 June 2017 reflected provisions with respect to matters described in this item 4 in amounts that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that UBS has recognized.

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

Foreign exchange-related regulatory matters: Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes its precious metals and related structured products businesses. Since then, various authorities have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, the Swiss Competition Commission ("WEKO"), the DOJ, the SEC, the US Commodity Futures Trading Commission ("CFTC"), the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), the California State Attorney General, the UK Financial Conduct Authority ("FCA") (to which certain responsibilities of the UK Financial Services Authority ("FSA") have passed), the UK Serious Fraud Office ("SFO"), the Australian Securities and Investments Commission ("ASIC"), the Hong Kong Monetary Authority ("HKMA"), the Korea Fair Trade Commission ("KFTC") and the Brazil Competition Authority ("CADE"). In addition, WEKO is, and a number of other authorities reportedly are, investigating potential manipulation of precious metals prices.

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. In 2015, the Federal Reserve Board and the Connecticut Department of Banking issued an Order to Cease and Desist and Order of Assessment of a Civil Monetary Penalty Issued upon Consent ("Federal Reserve Order") to UBS AG.

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

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

UBS has been granted conditional leniency or conditional immunity by the Antitrust Division of the DOJ ("Antitrust Division") from prosecution for EUR / USD collusion and entered into a non-prosecution agreement covering other currency pairs. As a result, UBS AG will not be subject to prosecutions, fines or other sanctions for antitrust law violations by the Antitrust Division, subject to UBS AG's continuing cooperation. However, the conditional leniency and conditional immunity grant does not bar government agencies from asserting other claims and imposing sanctions against UBS AG. UBS has also been granted conditional immunity by authorities in certain jurisdictions, including WEKO, in connection with potential competition law violations relating to foreign exchange and precious metals businesses and, as a result, will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in those jurisdictions, subject to UBS AG's continuing cooperation as the leniency applicant.

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

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

A putative class action has been filed in federal court in New York against UBS and other banks on behalf of participants, beneficiaries, and named fiduciaries of plans qualified under the Employee Retirement Income Security Act of 1974 ("ERISA") for whom a defendant bank provided foreign currency exchange transactional services, exercised discretionary authority or discretionary control

over management of such ERISA plan, or authorized or permitted the execution of any foreign currency exchange transactional services involving such plan's assets. The complaint asserts claims under ERISA. The parties filed a stipulation to dismiss the case with prejudice. The plaintiffs have appealed the dismissal. The appeals court heard oral argument in June 2017.

In 2015, a putative class action was filed in federal court against UBS and numerous other banks on behalf of a putative class of persons and businesses in the US who directly purchased foreign currency from the defendants and their co-conspirators for their own end use. That action has been transferred to federal court in New York. In March 2017, the court granted UBS's (and the other banks') motions to dismiss the complaint.

In 2016, a putative class action was filed in federal court in New York against UBS and numerous other banks on behalf of a putative class of persons and entities who had indirectly purchased FX instruments from a defendant or co-conspirator in the US. The complaint asserts claims under federal and state antitrust laws. In response to defendants' motion to dismiss, plaintiffs agreed to dismiss their complaint. In April and June 2017, two new putative class actions were filed in federal court in New York against UBS and numerous other banks on behalf of different proposed classes of indirect purchasers of currency, and a consolidated complaint was filed on 30 June 2017.

In 2015, UBS was added to putative class actions pending against other banks in federal court in New York and other jurisdictions on behalf of putative classes of persons who had bought or sold physical precious metals and various precious metal products and derivatives. The complaints in these lawsuits assert claims under the antitrust laws and the CEA, and other claims. In October 2016, the court in New York granted UBS's motions to dismiss the putative class actions relating to gold and silver. Plaintiffs in those cases sought to amend their complaints to add new allegations about UBS, which the court granted. In March 2017, the court in New York granted UBS's motion to dismiss the platinum and palladium action. In May 2017, plaintiffs filed an amended complaint that did not allege claims against UBS.

LIBOR and other benchmark-related regulatory matters: Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the SFO, the Monetary Authority of Singapore ("MAS"), the HKMA, FINMA, the various state attorneys general in the US and competition authorities in various jurisdictions have conducted or are continuing to conduct investigations regarding submissions with respect to LIBOR and other benchmark rates. These investigations focus on whether there were improper attempts by UBS, among others, either acting on its own or together with others, to manipulate LIBOR and other benchmark rates at certain times.

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time, FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of CHF 1.4 billion in fines and disgorgement in connection with these resolutions. 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. Under the NPA, UBS agreed, among other things, that for two years from 18 December 2012 it would not commit any US crime and would advise the DOJ of any potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. The term of the NPA was extended by one year to 18 December 2015. In 2015, the Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA.

In 2014, UBS reached a settlement with the European Commission ("EC") regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives and paid a EUR 12.7 million fine, which was reduced to this level based in part on UBS's cooperation with the EC. In 2016, UBS

reached a settlement with WEKO regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives and received full immunity from fines. The MAS, HKMA and the Japan Financial Services Agency have also resolved investigations of UBS (and in some cases, other banks). UBS has ongoing obligations to cooperate with the authorities with whom UBS has reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions.

Investigations by the CFTC, ASIC and other governmental authorities remain ongoing notwithstanding these resolutions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ and WEKO, in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. As a result of these conditional grants, UBS will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in the jurisdictions where UBS has conditional immunity in connection with the matters covered by the conditional grants, subject to UBS's continuing cooperation as leniency applicant. However, since the Secretariat of WEKO has asserted that UBS does not qualify for full immunity, UBS has been unable to reach a settlement with WEKO, and therefore the investigation will continue. Furthermore, the conditional leniency and conditional immunity grants UBS has received do not bar government agencies from asserting other claims and imposing sanctions against UBS. In addition, as a result of the conditional leniency agreement with the DOJ, UBS is eligible for a limit on liability to actual rather than treble damages were damages to be awarded in any civil antitrust action under US law based on conduct covered by the agreement and for relief from potential joint and several liability in connection with such civil antitrust action, subject to UBS satisfying the DOJ and the court presiding over the civil litigation of its cooperation. The conditional leniency and conditional immunity grants do not otherwise affect the ability of private parties to assert civil claims against UBS.

LIBOR and other benchmark-related civil litigation: A number of putative class actions and other actions are pending in the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives. Also pending in the US and in other jurisdictions are actions asserting losses related to various products whose interest rates were linked to LIBOR and other benchmarks, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest-bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including USD LIBOR, Euroyen TIBOR, Yen LIBOR, EURIBOR, CHF LIBOR, GBP LIBOR, USD and SGD SIBOR and SOR, Australian BBSW and USD ISDAFIX, and seek unspecified compensatory and other damages under varying legal theories.

In 2013, the US district court in the USD LIBOR action dismissed the federal antitrust and racketeering claims of certain USD LIBOR plaintiffs and a portion of their claims brought under the CEA and state common law. Certain plaintiffs appealed the decision to the Second Circuit, which, in 2016, vacated the district court's ruling finding no antitrust injury and remanded the case back to the district court for a further determination on whether plaintiffs have antitrust standing. In December 2016, the district court again dismissed plaintiffs' antitrust claims, this time for lack of personal jurisdiction over UBS and other foreign banks. In 2014, the court in one of the Euroyen TIBOR lawsuits dismissed certain of the plaintiff's claims, including federal antitrust claims. In 2015, the same court dismissed plaintiff's federal racketeering claims and affirmed its previous dismissal of plaintiff's antitrust claims. In 2017, the court also dismissed the other Yen LIBOR / Euroyen TIBOR action in its entirety on standing grounds. Also in 2017, the courts in the EURIBOR and the SIBOR and SOR lawsuits dismissed the cases as to UBS and certain other foreign defendants for lack of personal jurisdiction. UBS and other defendants in other lawsuits including those related to CHF LIBOR, GBP LIBOR and Australian BBSW have filed motions to dismiss. In 2016, UBS entered into an

agreement with representatives of a class of bondholders to settle their USD LIBOR class action. The agreement has received preliminary court approval and remains subject to final approval.

Since September 2014, putative class actions have been filed in federal court in New York and New Jersey against UBS and other financial institutions, among others, on behalf of parties who entered into interest rate derivative transactions linked to ISDAFIX. The complaints, which have since been consolidated into an amended complaint, allege that the defendants conspired to manipulate ISDAFIX rates from 1 January 2006 through June 2013, in violation of US antitrust laws and certain state laws, and seek unspecified compensatory damages, including treble damages. On 12 July 2017, the court overseeing the ISDAFIX class action preliminarily approved a settlement agreement between UBS AG and the plaintiffs, whereby UBS AG agreed to pay USD 14 million to settle the case in its entirety.

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

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, UBS's balance sheet at 30 June 2017 reflected a provision in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

6. Swiss retrocessions

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

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

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

UBS's balance sheet at 30 June 2017 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 BRL 2.7 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. These assessments are being challenged in administrative and judicial proceedings. The majority of these assessments relate to the deductibility of goodwill amortization in connection with UBS's 2006 acquisition of Pactual and payments made to Pactual employees through various profit-sharing plans. In 2015, an intermediate administrative court issued a decision that was largely in favour of the tax authority with respect to the goodwill amortization assessment. In 2016, the highest level of the administrative court agreed to review this decision on a number of the significant issues.

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

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

Except as otherwise disclosed in this document (including in the documents incorporated by reference herein), there are no court, arbitral or administrative proceedings (including any such proceedings which are pending or threatened, of which UBS AG is aware), which are of material importance to UBS AG's assets and liabilities or profits and losses.

7.6 Material Contracts

Except as otherwise disclosed in this document (including the documents incorporated herein by reference), no material contracts have been entered into outside of the ordinary course of UBS AG's or UBS AG Group's business, which could result in any member of the UBS AG Group being under an obligation or entitlement that is material to UBS AG's ability to meet its obligations to the investors in relation to the issued securities.

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

Except as otherwise indicated in this document (including the documents incorporated herein by reference), no material changes have occurred in UBS AG's assets and liabilities, financial position or profits and losses since 30 June 2017.

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

8. Share Capital

As reflected in its Articles of Association most recently registered with the Commercial Register of Zurich and the Commercial Register of Basel-City, UBS AG has (i) fully paid and issued share capital of CHF 385,840,846.60, divided into 3,858,408,466 registered shares with a par value of CHF 0.10 each (article 4), (ii) no authorized capital and (iii) conditional capital in the amount of (a) CHF 13,620,031.20, comprising 136,200,312 registered shares with a par value of CHF 0.10 each that can be issued upon exercise of employee options; and (b) CHF 38,000,000, comprising 380,000,000 registered shares with a par value of CHF 0.10 each that can be issued upon the voluntary or mandatory exercise of conversion rights and/or warrants (article 4a).

9. Dividends

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

10. Documents on Display

- The annual report of UBS Group AG and UBS AG as of 31 December 2015, comprising the introductory section, as well as the sections (1) Operating environment and strategy, (2) Financial and operating performance, (3) Risk, treasury and capital management, (4) Corporate governance, responsibility and compensation, (5) Consolidated financial statements (including the "Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements"), (6) Legal entity financial and regulatory information (including the "Report of the statutory auditor on the financial statements"), (7) Additional regulatory information, and the Appendix;
- The annual report of UBS Group AG and UBS AG as of 31 December 2016, comprising the introductory section, as well as the sections (1) Operating environment and strategy, (2) Financial and operating performance, (3) Risk, treasury and capital management, (4) Corporate governance, responsibility and compensation, (5) Financial statements (including the "Statutory auditor's report on the audit of the consolidated financial statements" and the "Report of Independent Registered Public Accounting Firm"), (6) Additional regulatory information, and the Appendix;
- The UBS AG standalone financial statements and regulatory information for the year ended 31 December 2016 (including the "Report of the statutory auditor on the financial statements");
- The UBS Group First Quarter 2017 Report and the UBS AG First Quarter 2017 Report;
- The UBS Group Second Quarter 2017 Report and the UBS AG Second Quarter 2017 Report; and
- The Articles of Association of UBS AG,

shall be maintained in printed format, for free distribution, at the offices of UBS AG for a period of twelve months after the publication of this document. In addition, the annual and quarterly reports, as well as quarterly result materials 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.