

The information in this Preliminary Listing Prospectus is not complete and may be changed, substituted and/or completed. This Preliminary Listing Prospectus is not an offer to sell nor does it seek an offer to buy the Notes in any jurisdiction, where the offer or sale is not permitted. This Preliminary Listing Prospectus may not be passed on in the United Kingdom except to investment professionals or other persons in circumstances in which section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

**PRELIMINARY LISTING PROSPECTUS DATED 6 FEBRUARY 2014:
NOT FOR DISTRIBUTION – SUBJECT TO AMENDMENT AND COMPLETION**



UBS AG

€•]

Tier 2 Subordinated Notes due [•]

This listing prospectus (the "**Listing Prospectus**") relates to the issue of €•] Tier 2 Subordinated Notes due [•] (the "**Notes**") by UBS AG (the "**Issuer**" and together with its subsidiaries, the "**UBS Group**" or "**UBS**"). The issue price of the Notes is [•] per cent. of their principal amount. Interest will accrue on the principal amount of the Notes from (and including) [•] 2014 (the "**Issue Date**") to (but excluding) [•] (the "**Call Date**") at an initial rate of [•] per cent. per annum, and thereafter at a rate equal to the sum of [•] per cent. and the Mid Market Swap Rate (as defined herein). Interest will be payable annually in arrear on [•] in each year, commencing on [•]. Payments on the Notes will be made without withholding or deduction for or on account of taxes of Switzerland to the extent described herein under Condition 8 (*Taxation*).

Unless previously redeemed or purchased and cancelled and subject to Condition 6 (*Contingent Write-down*) (as defined herein), the Notes will mature on [•]. Subject to the satisfaction of certain conditions described herein and applicable law, the Notes may be redeemed prior to their maturity at the option of the Issuer, in whole but not in part: (i) at their aggregate principal amount, together with any accrued but unpaid interest thereon, (a) on the Call Date; (b) upon the occurrence of a Tax Event; or (c) upon the occurrence of a Regulatory Event (each as defined herein); and (ii) at [101] per cent. of their aggregate principal amount, together with any accrued but unpaid interest thereon, (a) upon the occurrence of a Change in Progressive Capital Component Requirement; or (b) upon the occurrence of an Alignment Event (each as defined herein) as more particularly described in Condition 5 (*Redemption and Purchase*).

If either a Trigger Event or a Viability Event (each as defined herein) occurs, a Contingent Write-down shall occur at the relevant Write-down Date and the Holders will lose the entire principal amount of the Notes and all accrued and unpaid interest thereon that has not become due and payable prior to the relevant Write-down Notice Date, as further described in Condition 6 (*Contingent Write-down*).

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer, as more particularly described in Condition 3 (*Status and Subordination*).

An investment in the Notes involves certain risks. For a discussion of these risks see "Risk Factors".

The Notes have been assigned a rating of ["BBB-"] by Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") and ["BBB+"] by Fitch Ratings Ltd. ("**Fitch**").

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes will be issued to Holders (as defined herein) in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes may only be held and transferred, and may only be offered and sold, in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will be issued in uncertificated form (*Wertrechte*) and governed by Swiss law. It is expected that delivery of the Notes will be made through the systems operated by SIX SIS AG, Olten, Switzerland ("**SIS**") on [•]. See Condition 2 (*Amount and Denomination; Form and Transfer*) for more details.

The Notes have been provisionally admitted to trading on the SIX Swiss Exchange Ltd (the "**SIX Swiss Exchange**") from [•] 2014. The last trading day, subject to an early redemption, is expected to be [•]. Application will be made for the Notes to be listed on the SIX Swiss Exchange.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Managers (as defined herein) in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

GLOBAL COORDINATOR AND ARRANGER

UBS INVESTMENT BANK

JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

[•]

[•]

CO-LEAD MANAGERS

[•]

[•]

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IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Listing Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Listing Prospectus, to the best of its knowledge, is correct and no material facts or circumstances have been omitted herefrom.

The Issuer has confirmed to the Managers named under "*Subscription and Sale*" below (the "**Managers**") that this Listing Prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Listing Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Listing Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all reasonable enquiries have been made to ascertain and to verify the accuracy of the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Listing Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Managers.

Neither the Managers nor any of their respective affiliates have authorised the whole or any part of this Listing Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Listing Prospectus. Neither the delivery of this Listing Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Listing Prospectus.

Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their residence and domicile for the acquisition, holding or disposal of Notes and any foreign exchange restrictions that might be relevant to them.

This Listing Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer or the Managers to subscribe for or purchase any of the Notes.

Prospective investors should satisfy themselves that they understand all of the risks associated with making investments in the Notes. If a prospective investor is in any doubt whatsoever as to the risks involved in investing in the Notes, he should consult his professional advisers.

An investment in the Notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result therefrom.

The distribution of this Listing Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Listing Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Listing Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

This Listing Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this Listing Prospectus may only do so in circumstances in which no obligation arises for the Issuer or any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Managers have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Managers to publish or supplement a prospectus for such offer. The expression "**Prospectus Directive**" means Directive

Important Notices

2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

The Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to US persons.

In this Listing Prospectus, unless otherwise specified, references to a "**Member State**" are references to a Member State of the European Economic Area, references to "**USD**", "**U.S. dollars**" or "**dollars**" are to United States dollars, references to "**CHF**" are to Swiss francs and references to "**€**", "**EUR**" or "**euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the euro, as amended.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated in and taken to form part of this Listing Prospectus:

- (a) the Issuer's Annual Report on Form 20-F for the year ended 31 December 2012, which the Issuer filed with the United States Securities and Exchange Commission (the "SEC") on 14 March 2013 (the "**2012 Annual Report on Form 20-F**") and the Issuer's Annual Report on Form 20-F for the year ended 31 December 2011, which the Issuer filed with the SEC on 15 March 2012 (the "**2011 Annual Report on Form 20-F**");
- (b) the Issuer's financial results related submissions on Form 6-K, made on the following dates:
 - (i) three submissions dated 30 April 2013, containing the First Quarter 2013 Report, the presentation materials and the capitalisation table;
 - (ii) three submissions dated 30 July 2013, containing the Second Quarter 2013 Report, the presentation materials and the capitalisation table;
 - (iii) one submission dated 30 August 2013, containing the Basel III Pillar 3 disclosure for first half 2013;
 - (iv) three submissions dated 29 October 2013 containing the Third Quarter 2013 Financial Report, the presentation materials and the capitalisation table;
 - (v) one submission dated 5 November 2013, containing the 30 September 2013 update to Basel III Pillar 3 disclosures;
 - (vi) three submissions dated 4 February 2014 containing the Fourth Quarter 2013 Financial Report, the presentation materials and the capitalisation table; and
- (c) the Issuer's other submissions on Form 6-K, made on the following dates:
 - (i) one submission made on 2 April 2013, containing the agenda for the Annual General Meeting of the Issuer;
 - (ii) one submission made on 2 May 2013, containing the results of the Annual General Meeting of the Issuer;
 - (iii) one submission made on 2 December 2013 containing the articles of association of UBS AG dated 14 November 2013;
 - (iv) one submission made on 5 December 2013 containing the news release of UBS AG regarding changes to Group Executive Board and Corporate Center.

Copies of the documents incorporated by reference herein are available free of charge from the Issuer at UBS AG, Zurich, Prospectus Library, Switzerland (phone +41 44 239 47 03, fax +41 44 239 69 14, email: swiss-prospectus@ubs.com).

In addition, the annual and quarterly reports of UBS AG are published on UBS's website, at www.ubs.com/investors. The information contained on this website or other securities filings do not form part of this Listing Prospectus unless otherwise specifically incorporated by reference hereto.

The Issuer is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, files reports and other information with the SEC. Such reports and other information filed with the SEC can be reviewed and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC +1-202-942-8088 for further information on the operation of its public reference room. Reports filed with the SEC can also be accessed at <http://www.sec.gov> via the internet. The information contained on this website does not form part of this Listing Prospectus unless otherwise specifically incorporated by reference hereto.

SUMMARY

This summary must be read as an introduction to this Listing Prospectus and any decision to invest in the Notes should be based on a consideration of the Listing Prospectus as a whole, including the documents incorporated by reference. No civil liability attaches to the persons responsible for this summary solely on the basis of this summary.

Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Listing Prospectus have the same meanings in this summary. Reference to "Conditions" or "Terms and Conditions" in this Listing Prospectus are to the Terms and Conditions of the Notes.

The Issuer:	UBS AG (the " Issuer ").
The Notes:	€[•] Tier 2 Subordinated Notes due [•].
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. Certain of these factors are set out under " <i>Risk Factors</i> " below and include, among others, risks relating to regulatory and legislative changes, reputation, market, liquidity and legal risks and the general economic situation. In addition, there are certain factors that are material for purposes of assessing the risks associated with the Notes. These include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of the Notes (including that they are subject to a Contingent Write-down upon the occurrence of a Trigger Event or if the Issuer gives a Write-down Notice to the Holders upon the occurrence of a Viability Event, both of which would result in Holders' loss of the entire investment in the Notes) and certain market risks.
Global Coordinator and Arranger:	UBS Limited.
Joint Bookrunners and Joint Lead Managers:	[•] and [•].
Co-Lead Managers	[•] and [•]
Issue Price:	[•] per cent. of the principal amount of the Notes.
Form of the Notes:	The Notes will be issued in uncertificated form (<i>Wertrechte</i>) and will be entered into the main register (<i>Hauptregister</i>) of SIS or any other intermediary in Switzerland recognised for such purposes by the SIX Swiss Exchange. Neither the Issuer nor any holder of a Note nor any third party will at any time have the right to effect or demand the conversion of any Note into, or the delivery of a Note in, global or definitive form.
Clearing System:	SIX SIS AG.
Paying Agent:	UBS AG itself fulfils the function of paying agent for the Notes. The Issuer reserves the right to appoint or, after any such appointment, to terminate the appointment of, one or more paying agents to carry out any payment, calculation or other functions in respect of the Notes.
Issue Date:	[•] 2014.

Summary

Currency:	Euro ("€").
Denomination:	<p>The Notes will be issued to Holders in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.</p> <p>The Notes may only be held and transferred in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.</p>
Maturity:	Unless previously redeemed, purchased and cancelled and subject to Condition 6 (<i>Contingent Write-down</i>), the Notes will be redeemed on [•] (the " Maturity Date "), at their aggregate principal amount, together with any accrued and unpaid interest thereon to (but excluding) the Maturity Date.
Interest:	The Notes will bear interest on their principal amount (i) from (and including) the Issue Date to (but excluding) [•] (the " Call Date "), at a rate of [•] per cent. per annum, and (ii) from (and including) the Call Date to (but excluding) the Maturity Date or Early Redemption Date, as the case may be, at a rate per annum equal to the sum of [•] per cent. and the Mid Market Swap Rate.
Interest Payment Dates:	Subject to Condition 6 (<i>Contingent Write-down</i>), interest will be payable annually in arrear on [•] of each year, commencing on [•].
Optional Early Redemption:	<p>The Issuer may elect, in its sole discretion, to redeem the Notes, in whole but not in part:</p> <ul style="list-style-type: none">(i) at their aggregate principal amount on the Call Date, together with any accrued and unpaid interest thereon to (but excluding) the Call Date; or(ii) upon the occurrence of a Tax Event at any time after the Issue Date, at their aggregate principal amount on the relevant Early Redemption Date, together with any accrued and unpaid interest thereon to (but excluding) such Early Redemption Date; or(iii) upon the occurrence of a Regulatory Event at any time after the Issue Date, at their aggregate principal amount on the relevant Early Redemption Date, together with any accrued and unpaid interest thereon to (but excluding) such Early Redemption Date; or(iv) upon the occurrence of a Change in Progressive Capital Component Requirement or an Alignment Event (provided that, in the case of an Alignment Event, the Issuer has not given Holders an Amendment Notice), at [101] per cent. of their aggregate principal amount on the relevant Early Redemption Date, together with any accrued and unpaid interest thereon to (but excluding) such Early Redemption Date, <p>provided that (x) in the case of any early redemption described in clauses (i), (ii) or (iv) above, the FINMA has approved such redemption in writing and no Viability Event has occurred prior to the relevant Early Redemption Date and (y) in all cases, the Issuer has complied with the relevant notice requirements, all as more particularly described in Condition 5 (<i>Redemption and</i></p>

Summary

Purchase).

Purchases:

The Issuer or any other member or the Group or any of its affiliates may at any time purchase Notes at any price in the open market or otherwise, **provided that** (i) such purchase complies with any limits or conditions to which any member of the Group is subject under applicable banking laws and regulations at the time of such purchase, (ii) the FINMA has approved such purchase in writing on or prior to the date of such purchase (except in the case of purchases made in connection with certain stabilisation measures or market making in the Notes) and (iii) no Viability Event has occurred prior to the date of such purchase.

Contingent Write-down:

If a Trigger Event occurs or, upon the occurrence of a Viability Event, the Issuer gives a Write-down Notice to the Holders in accordance with the terms of the Notes, then as of the relevant Write-down Date:

- (i) the full principal amount of the Notes will automatically be written down to zero and the Notes will be cancelled;
- (ii) the Holders will be automatically deemed to irrevocably waive their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the Notes written down as described in clause (i) above;
- (iii) the Issuer will pay any accrued and unpaid interest on the Notes and any Additional Amounts related to interest on the Notes if and only to the extent that such interest or Additional Amounts became due and payable to the relevant Holder prior to the relevant Write-down Notice Date; and
- (iv) except as described in clause (iii) above, all rights of any Holder for payment of any amounts under or in respect of the Notes (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) will become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Write-down Notice Date or the Write-down Date.

Trigger Event:

A "**Trigger Event**" will occur if the Issuer gives the Holders a Trigger Event Write-down Notice.

The Issuer is required to give the Holders a Trigger Event Write-down Notice (within the required notice period) if (i) the Trigger CET1 Ratio as of the relevant Publication Date is below five per cent., and (ii) during the one-month period ending on the date immediately preceding such Publication Date, UBS AG has not paid, or proposed to pay, any distribution in cash or in kind (other than in the form of Core Capital Instruments) on any Core Capital Instruments, or repurchased, redeemed or retired for any consideration any Core Capital Instruments, except pursuant to certain limited transactions, as more particularly described in clause (b) of Condition 6 (*Contingent Write-down*). Notwithstanding the above, in the case of an Ordinary

Publication Date, if the FINMA, upon the request of UBS AG and prior to the earlier of the Ordinary Trigger Event Notice Date and the Trigger Breach Determination Date (i.e., the fifth Business Day after such Ordinary Publication Date), has agreed in writing that a Contingent Write-down is not required as a result of actions taken by the Group or circumstances or events, in each case, that have had, or imminently will have, the effect of restoring the CET1 Ratio as of the Balance Sheet Date relating to such Ordinary Publication Date, after giving *pro forma* effect to such actions, circumstances or events, to a level above five per cent. that the FINMA and UBS AG deem, in their sole discretion, to be adequate at such time, the Issuer will not give a Trigger Event Write-down Notice and will give notice to the Holders on or prior to the Trigger Breach Determination Date that no Contingent Write-down will occur with respect to such Ordinary Publication Date.

Furthermore, if any High-Trigger Contingent Capital is outstanding on the relevant Publication Date, the date on which the Issuer gives the Trigger Event Write-down Notice and/or the Trigger Event Write-down Date may be postponed, as more particularly described in clause (b)(ii) of Condition 6 (*Contingent Write-down*).

Viability Event:

A "**Viability Event**" will be deemed to have occurred if:

- (i) the FINMA has notified UBS AG in writing that it has determined a write-down of the Notes, together with the conversion or write down, as applicable, of holders' claims in respect of any other capital instruments issued by any member of the Group that, pursuant to their terms or by operation of law, are capable of being converted into equity or written down at that time, is, because customary measures to improve UBS AG's capital adequacy are at the time inadequate or infeasible, an essential requirement to prevent UBS AG from becoming insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business; or
- (ii) customary measures to improve UBS AG's capital adequacy being at the time inadequate or infeasible, UBS AG has received an irrevocable commitment of direct or indirect extraordinary support from the Public Sector (beyond customary transactions and arrangements in the ordinary course) that has, or imminently will have, the effect of improving UBS AG's capital adequacy and without which, in the determination of (and as notified in writing by) the FINMA, UBS AG would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.

Upon the occurrence of a Viability Event, the Issuer is required to give notice to the Holders within three days of the date on which such Viability Event occurred, which notice will state that a Viability Event has occurred and a Contingent Write-down will take place on the Write-down Date specified therein.

Summary

Amendment upon an Alignment Event:

Upon the occurrence of an Alignment Event, the Issuer may, without the consent of the Holders, amend the Terms and Conditions of the Notes in order to align them (to the extent possible) with the terms of any outstanding capital instruments that (i) have been issued by any member of the Group, (ii) qualify as Tier 2 Capital and Progressive Capital Component and (iii) have terms and conditions that (a) include a write-down feature, and (b) contain one or more provisions that are, in the reasonable opinion of the Issuer, different in any material respect from those in the Terms and Conditions of the Notes, which provisions, if they had been included in the Terms and Conditions of the Notes, would have prevented the Notes from qualifying as Progressive Capital Component immediately prior to the change in the National Regulations related to such Alignment Event, **provided that** such amendment, in the reasonable opinion of the Issuer, does not adversely affect the rights and claims of the Holders under the Notes and provided certain other conditions are satisfied, as more particularly described in clause (a) of Condition 11 (*Amendments*).

Taxation:

The Issuer will pay such Additional Amounts as will result in the Holders receiving, after withholding or deduction for, or on account of, any Taxes imposed, levied, collected, withheld or assessed by or on behalf of Switzerland (or any political subdivision thereof or authority thereof or therein having the power to impose, levy, collect, withhold or assess Taxes) upon payments made by or on behalf of the Issuer under the Notes, an amount equal to the amount that the Holders would have received under the Notes in the absence of such withholding or deduction, except in certain limited circumstances, as more particularly described in Condition 8 (*Taxation*).

Events of Default:

It will be an Event of Default if:

- the payment of the principal amount of any Note is more than 30 days overdue; or
- the payment of any interest amount on any Note is more than 30 days overdue; or
- there is any other default under the Notes that is either incapable of remedy or continues unremedied for more than 60 days after written notice by a Holder to the Issuer; or
- a Bankruptcy Event occurs.

However, upon the occurrence of an Event of Default, Holders have limited enforcement remedies, as more particularly described in Condition 10 (*Events of Default*). In particular, no Holder may declare the principal amount of its Notes due and payable prior to the Maturity Date or any interest on any of its Notes due and payable prior to the relevant Interest Payment Date, except upon the occurrence of a Bankruptcy Event. See also "*Risk Factors—There are limited remedies available under the Notes*".

Summary

Issuer Substitution:	The Issuer may, without the consent of the Holders, substitute any entity (whether or not such entity is organised under the laws of Switzerland) for itself as principal debtor under the Notes, provided that certain conditions are satisfied, as more particularly described in clause (a) of Condition 13 (<i>Substitution</i>).
Use of Proceeds:	The net proceeds of the issue of the Notes will be used by UBS AG to augment its regulatory capital base. See " <i>Use of Proceeds</i> ".
Status of the Notes:	<p>The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and rank <i>pari passu</i> and without any preference among themselves. The rights and claims of the Holders against the Issuer under the Notes are subordinated as described in Condition 3(b) (<i>Status and Subordination – Subordination</i>).</p> <p> Holders have limited enforcement remedies under the Notes, as more particularly described in Condition 10 (<i>Events of Default</i>). See also "<i>Risk Factors—There are limited remedies available under the Notes</i>".</p>
Rating:	The Notes are expected to be rated [BBB– by Standard & Poor's and BBB+ by Fitch.]
Listing and Trading:	The Notes have been provisionally admitted to trading on the SIX Swiss Exchange from [•] 2014. The last trading day, subject to an early redemption, is expected to be [•]. Application will be made for the Notes to be listed on the SIX Swiss Exchange.
Governing Law:	The Notes will be governed by Swiss law. The Subscription Agreement will be governed by English law.
Jurisdiction:	The courts of the city of Zurich, Switzerland, shall have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes.
Selling Restrictions:	See " <i>Subscription and Sale</i> ".
United States Selling Restrictions:	Regulation S, Category 2.
Security Codes:	ISIN: [•]. Common Code: [•]. Swiss Security Number: [•].

RISK FACTORS

Prospective investors should read the entire Listing Prospectus. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Listing Prospectus have the same meanings in this section. Investing in the Notes involves certain risks. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences. Prospective investors should consider, among other things, the following:

Risks relating to the Notes

The Notes are novel and complex financial instruments and may not be a suitable investment for all investors.

The Notes are novel and complex financial instruments. As a result, an investment in the Notes will involve certain increased risks. Each potential investor in the Notes must determine the suitability of such investment in light of its own circumstances. In particular, each potential investor should:

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Listing Prospectus;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understand thoroughly the terms of the Notes, such as the provisions governing a Contingent Write-down (including, in particular, calculation of the CET1 Ratio and Trigger CET1 Ratio, as well as under what circumstances a Trigger Event or a Viability Event will or may be deemed to occur), and be familiar with the behaviour of any relevant financial markets and their potential impact on the likelihood of certain events under the Notes occurring; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to enhance yield or hedge risk with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the knowledge and expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions and their resulting effects on the likelihood of a write-down and the value of the Notes, and the impact this investment will have on the potential investor's overall investment portfolio. Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Listing Prospectus or incorporated by reference herein.

The Notes may be subject to a Contingent Write-down.

Investors will lose the entire amount of their investment in the Notes following the occurrence of a Trigger Event or a Viability Event, each of which will lead to a Contingent Write-down. Upon the occurrence of a Contingent Write-down, the full principal amount of the Notes will automatically be written down to zero and the Notes will be cancelled as of the relevant Write-down Date.

Furthermore, following the occurrence of a Contingent Write-down and as of the relevant Write-down Date, (i) interest will cease to accrue and (ii) all interest amounts or Additional Amounts that were not due and payable prior to the Write-down Notice Date will become null and void. Consequently, holders

will not be entitled to receive any interest that has accrued on the Notes (but is not yet due and payable) from (and including) the last Interest Payment Date falling on or prior to the Write-down Notice Date.

Any Contingent Write-down will be irrevocable and the holders will, upon the occurrence of a Contingent Write-down, not (i) receive any shares or other participation rights of UBS AG or be entitled to any other participation in the upside potential of any equity or debt securities issued by UBS AG or any other member of the UBS Group, or (ii) be entitled to any subsequent write-up or any other compensation in the event of a potential recovery of UBS AG or the UBS Group or any subsequent change in the CET1 Ratio or High-Trigger Amount or financial condition. A Contingent Write-down may occur even if existing shares of UBS AG remain outstanding.

A Trigger Event will be deemed to have occurred if the Issuer determines, and notifies the holders that, UBS AG's capital has fallen below the Write-down Threshold of 5 per cent. A Viability Event will be deemed to have occurred if (i) the Swiss Financial Market Supervisory Authority FINMA ("FINMA") determines that a Contingent Write-down is necessary to prevent the insolvency, bankruptcy or failure of UBS AG to pay a material part of its debts as they fall due or to prevent UBS AG from becoming unable to carry on its business or (ii) UBS AG has received a commitment of extraordinary support from the Public Sector that is, as determined by the FINMA, necessary to prevent the insolvency, bankruptcy or failure of UBS AG to pay a material part of its debts as they fall due or to prevent UBS AG from becoming unable to carry on its business. Either could occur before formal insolvency or restructuring proceedings would be commenced in respect of UBS AG.

The Notes may be redeemed prior to maturity.

The Terms and Conditions provide that the Notes are redeemable at the Issuer's option in certain circumstances such as a Tax Event, a Regulatory Event, a Change in Progressive Capital Component Requirement or an Alignment Event, or on the Call Date, and accordingly the Issuer may choose to redeem the Notes at times when its cost of alternative borrowing is lower than the interest rate on the Notes. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes. Potential investors should consider whether and how to reinvest the proceeds of such redemption in light of other investments available at that time. There can be no assurance that Holders will be able to reinvest the redemption proceeds at a rate that will provide the same rate of return as their investment in the Notes. In addition, the optional redemption feature of the Notes is likely to limit their market value. During any period when the Issuer has the right to elect to redeem the Notes, the market value of the Notes generally will not rise substantially above the price at which they can be redeemed. There is no requirement to redeem the Notes or any other capital instruments of the UBS Group on a *pro rata* basis or otherwise upon the occurrence of any event giving the Issuer the right to redeem the Notes prior to maturity. Also, upon the occurrence of any event giving the Issuer the right to redeem the Notes prior to maturity, the Issuer or any other member of the UBS Group, as applicable, may, instead of redeeming the Notes, choose to redeem other outstanding capital instruments if the terms of those capital instruments so provide, leaving the holders of the Notes subject to the risk of a Contingent Write-down while other investors are redeemed at par or other advantageous prices.

Any redemption of the Notes following a Tax Event, a Change in Progressive Capital Component Requirement or an Alignment Event or on the Call Date will be subject to the consent of the FINMA, which pursuant to applicable Swiss regulations requires, among other things, that at the time of the redemption UBS AG (i) in the case of a replacement of capital, issues at least equivalent capital in the same amount, or (ii) without a replacement of capital, has capital in an amount that is materially above the minimum capital requirements. This requirement may result in the Issuer not being able to redeem the Notes even when it would appear likely to do so, which would leave the holders of the Notes at risk of a Contingent Write-down notwithstanding the occurrence of an event that would otherwise give rise to redemption at par (or, in the case of a Change in Progressive Capital Component Requirement or Alignment Event, 101 per cent. of the aggregate principal amount of the Notes).

The Issuer's obligations under the Notes are subordinated.

In the event of a Bankruptcy Event or in the case of an order being made, or an effective resolution being passed, for the liquidation or winding-up of the Issuer, the rights and claims of the Holders against the Issuer in respect of or arising under (including any damages awarded for breach of any obligation under) the Notes will generally rank (A) junior to the rights and claims of all holders of Senior Obligations,

(B) *pari passu* with the rights and claims of holders of Parity Obligations and (C) senior to the rights and claims of holders of Junior Obligations.

Therefore, if the Issuer were wound up, liquidated or dissolved, the Issuer's liquidator would first apply assets of the Issuer to satisfy all rights and claims of holders of Senior Obligations. If the Issuer does not have sufficient assets to settle claims of holders of Senior Obligations in full, the claims of the Holders under the Notes will not be settled and, as a result, the Holders will lose the entire amount of their investment in the Notes. The Notes will share equally in payment with the Parity Obligations if the Issuer does not have sufficient funds to make full payments on all of them, as applicable. In such a situation, Holders could lose all or part of their investment.

In addition, Holders should be aware that, upon the occurrence of a Contingent Write-down, the full principal amount of the Notes will automatically be written down to zero and the Notes will be cancelled, and, as a result, the holders will lose the entire amount of their investment in the Notes irrespective of whether the Issuer has sufficient assets available to settle the claims of the holders under the Notes or other securities subordinated to the same or greater extent than the Notes, in bankruptcy, liquidation, dissolution or winding-up proceedings or otherwise. As a result, even if other Notes that rank *pari passu* with or junior to the Notes are paid in full, if the Bankruptcy Event occurs following the Contingent Write-down, the holders of the Notes will receive (at most) only the interest that was due and payable prior to the time of the relevant Write-down Notice Date.

The circumstances surrounding or triggering a Contingent Write-down are unpredictable.

The occurrence of a Trigger Event or a Viability Event is inherently unpredictable and depends on a number of factors, any of which may be outside of the control of the Issuer.

The occurrence of a Trigger Event under the Notes depends, in part, on the calculation of the Trigger CET1 Ratio and whether that ratio is below five per cent. This calculation could be affected by, among other things, the growth of the UBS Group's business and its future earnings, expected dividend payments by UBS AG, regulatory changes (including changes to regulatory capital definitions and calculations) and the UBS Group's ability to mitigate risk weighted assets in accordance with its plans. This calculation may also be affected by changes in applicable accounting rules or by changes to regulatory adjustments modifying the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules or the related changes to regulatory adjustments are not applicable as of the relevant calculation date, the FINMA could require UBS AG to reflect such changes in any particular calculation of the CET1 Ratio. Those accounting changes may have a material adverse impact on the calculation of the CET1 Capital and BIS Risk Weighted Assets used to calculate the CET1 Ratio. Moreover, pursuant to the Capital Adequacy Ordinance, UBS AG is permitted to allocate common equity tier 1 capital to Progressive Capital Component so long as at the time of, and immediately after giving effect to, such re-allocation the common equity tier 1 capital does not fall below the amount required under the Capital Adequacy Ordinance at such time. If it were to choose to do so, any such common equity tier 1 capital would no longer be included in the CET1 Ratio and the CET1 Ratio would be reduced accordingly. Any such re-allocation could make the occurrence of a Trigger Event more likely and would not be subject to any approval or consent by the Holders. Furthermore, although UBS AG reports the CET1 Ratio only as of each quarterly period end, the FINMA as part of its supervisory activity may instruct UBS AG to calculate the CET1 Ratio as of any date during such periods. The CET1 Ratio and other capital metrics fluctuate during any reporting period in the ordinary course of business. In addition, the occurrence of a Trigger Event depends on the High-Trigger Amount. The High-Trigger Amount will fluctuate with any future issuance and subsequent redemption of High-Trigger Contingent Capital.

Furthermore, changes that may occur to the Capital Adequacy Ordinance subsequent to the date of this Listing Prospectus, and changes to the basis of UBS AG's calculation of the CET1 Ratio resulting therefrom, may individually or in the aggregate negatively affect the CET1 Ratio and thus increase the risk of a Contingent Write-down, as a result of which Holders will lose their entire investment in the Notes and have no further rights against UBS AG with respect to the repayment of the principal amount of the Notes or the payment of interest on the Notes that was not due and payable prior to the relevant Write-down Notice Date.

The occurrence of a Viability Event is dependent upon, among other things, the subjective determination of the FINMA regarding the viability of UBS AG. Namely, it is up to the FINMA to determine whether a write-down of the Notes, together with the conversion or write-down, as applicable, of holders' claims in

respect of any other capital instruments issued by any member of the UBS Group that, pursuant to their terms or by operation of law, are capable of being converted into equity or written down at that time, is, because customary measures to improve UBS AG's capital adequacy are inadequate or infeasible, an essential requirement to prevent UBS AG from becoming insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business. Additionally, if customary measures to improve UBS AG's capital adequacy are inadequate or infeasible and, as a result, UBS AG has received an irrevocable commitment of direct or indirect extraordinary support from the Public Sector (beyond customary transactions and arrangements in the ordinary course), it is up to the FINMA to determine whether UBS AG would have become insolvent, bankrupt, unable to pay a material portion of its debts as they fall due or unable to carry on its business without such extraordinary support, and the FINMA has considerable discretion in making such determination. As a result, the FINMA may require, or the Swiss federal government may take actions contributing to the occurrence of, a Contingent Write-down in circumstances that are beyond the control of the Issuer and with which the Issuer may not agree.

Due to the inherent uncertainty regarding the determination as to whether a Trigger Event or a Viability Event has occurred, it will be difficult to predict when, if at all, a Contingent Write-down will occur. Accordingly, the trading behaviour of the Notes is not necessarily expected to follow the trading behaviour of other types of subordinated securities. Any indication that the condition of the UBS Group is heading towards a condition that could result in the occurrence of a Trigger Event or a Viability Event can be expected to have an adverse effect on the market price of the Notes.

Holders will bear the risk of fluctuations in the CET1 Ratio.

The market price of the Notes is expected to be affected by fluctuations in the CET1 Ratio since the amount of CET1 Capital may vary, as may the amount of the BIS Risk Weighted Assets. Any indication that the CET1 Ratio is trending towards a Trigger Event may have an adverse effect on the market price of the Notes. The level of the CET1 Ratio may significantly affect the trading price of the Notes.

For the purpose of the calculation of the CET1 Ratio, which is relevant for the determination of a potential Trigger Event resulting in a Write-down of the Notes, the CET1 Capital and the BIS Risk Weighted Assets are determined in accordance with the relevant Swiss regulations as applied by the FINMA. In respect of systemically relevant banks (such as UBS AG), the Swiss regulations differ from the capital adequacy standards and guidelines promulgated by the Basel Committee on Banking Supervision.

The interest rate on the Notes will reset on the Call Date, which can be expected to affect the interest payment on the Notes and the market value of the Notes.

The Notes will initially bear interest at the fixed rate of [•] per cent. per annum to (but excluding) the Call Date. From (and including) the Call Date, however, the interest rate will be reset to a rate that will equal the sum of [•] per cent. and the Mid Market Swap Rate. This reset rate could be less than [•] per cent. and could affect the market value of the Notes.

There are limited remedies available under the Notes.

In accordance with the requirements for Tier 2 capital, and as more particularly described under Condition 10 (*Events of Default*) below, Holders have only limited enforcement remedies upon an Event of Default. These are limited, in the case of enforcing payment of sums due under the Notes, to instituting proceedings against the Issuer in accordance with Swiss insolvency laws and, in the case of any other default under the Notes, to seeking specific performance or damages in accordance with the Swiss Code of Obligations. A Holder may accelerate its Notes only upon the occurrence of a Bankruptcy Event. Furthermore, even if a Bankruptcy Event occurs, if a Contingent Write-down occurs before the Bankruptcy Event, the claim that a Holder could submit in the bankruptcy proceeding would be limited to the amount of any interest that became due and payable before the relevant Write-down Date.

There is no restriction on the amount or type of further securities or indebtedness that the Issuer may issue, incur or guarantee.

There is no restriction on the amount or type of further securities or indebtedness that the Issuer may issue, incur or guarantee, as the case may be, that rank senior to, or *pari passu* with, the Notes offered hereby. The issue or guaranteeing of any such further securities or indebtedness may reduce the amount

recoverable by Holders under the Notes on a liquidation or winding-up of the Issuer. In addition, the Notes do not contain any restriction on the Issuer issuing securities which may have preferential rights to the Notes or securities with similar, different or no Trigger Event or Viability Event provisions.

The Notes are not covered by any government compensation or insurance scheme and do not have the benefit of any government guarantee.

An investment in the Notes will not be covered by any compensation or insurance scheme of any government agency of Switzerland or any other jurisdiction, and the Notes do not have the benefit of any government guarantee. The Notes are the Issuer's obligation only and Holders must solely look to the Issuer for the performance of the Issuer's obligations under the Notes. In the event of the Issuer's insolvency, a Holder may lose all or some of its investment in the Notes.

In certain instances the Issuer could vary the Terms and Conditions and holders may be bound by certain other amendments to the Notes to which they did not consent.

If an Alignment Event has occurred and is continuing, in addition to its option to redeem the Notes, the Issuer may, without the consent of the Holders, amend the Conditions of the Notes in order to align them (to the extent possible) with the terms of any capital instruments issued by any member of the UBS Group that qualify as Tier 2 Capital and Progressive Capital Component and include a write-down feature and one or more provisions that, if they had been included in the Terms and Conditions, would have prevented the Notes from qualifying as Tier 2 Capital or Progressive Capital Component prior to the change, as more particularly described in Condition 11 (*Amendments*). While the Issuer cannot make changes to the Terms and Conditions unless, in the reasonable opinion of the Issuer, the change does not adversely affect the rights and claims of the Holders under the Notes, no assurance can be given as to whether any of these changes will negatively affect any particular Holder. In addition, the tax and stamp duty consequences of holding such amended Notes could be different for some categories of Holders from the tax and stamp duty consequences for them of holding the Notes prior to such amendment.

In addition, Notes are subject to statutory provisions of Swiss law allowing for the calling of meetings of Holders to consider matters affecting their interests. These provisions permit defined majorities to bind all Holders, including Holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Further, the Issuer may without the consent or approval of the Holders make such amendments to the Terms and Conditions as it considers necessary or desirable to give effect to certain provisions of the Terms and Conditions and such other changes that in its opinion are of a formal, minor or technical nature or made to correct a manifest error, or that in its opinion are not materially prejudicial to the interests of the Holders.

Minimum Denomination.

As the Notes may only be held and transferred in a minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). Under the Terms and Conditions, a Holder will be required to hold an amount of Notes that is not less than the minimum denomination of €100,000.

Credit Rating.

The Notes have been assigned a rating of ["BBB-" by Standard & Poor's and "BBB+" by Fitch.] A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

A downgrade, suspension or withdrawal of the rating assigned by any rating agency to the Notes could cause the liquidity or market value of the Notes to decline.

Upon issuance, the Notes will be rated by nationally recognised statistical ratings organisations and may in the future be rated by additional rating agencies. Any rating initially assigned to the Notes may not be consistent with the expected ratings set out elsewhere in this Listing Prospectus or may be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances relating to the

basis of the rating, such as adverse changes to the Issuer's business, so warrant. Any lowering or withdrawal of a rating by a rating agency could reduce the liquidity or market value of the Notes.

The Issuer is currently considering structural changes in light of regulatory trends and requirements and the Terms and Conditions do not contain any restrictions on the Issuer's ability to restructure its business.

The Issuer has announced that it plans to establish a new banking subsidiary in Switzerland. The scope of this potential future subsidiary's business is still being determined, but the Issuer expects it to include the Issuer's Retail & Corporate business division and likely the Swiss-booked business within the Issuer's Wealth Management business division. The Issuer expects to implement this change in a phased approach starting in mid-2015. This change is being discussed on an ongoing basis with FINMA, and remains subject to a number of uncertainties that may affect its feasibility, scope or timing.

Significant legal and regulatory changes affecting the Issuer and its operations in Switzerland, the United Kingdom the US and other jurisdictions may require the Issuer to make further changes in its legal structure or may make such changes economically desirable for the Issuer.

The Terms and Conditions contain no restrictions on change of control events or structural changes, such as consolidations or mergers or demergers of the Issuer or the sale, assignment, transfer or other disposal of all or any portion of the Issuer's properties or assets and no Event of Default, requirement to repurchase the Notes or other event will be triggered under the Terms and Conditions as a result of such changes. There can be no assurance that such changes, should they occur, would not adversely affect the credit rating of the Issuer.

Payments on or with respect to the Notes may be subject to U.S. withholding under FATCA

The Issuer and other financial institutions through which payments on the Notes are made may be required to withhold at a rate of up to 30 per cent. on all, or a portion of, payments made after 31 December 2016 pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "**FATCA**").

The Issuer is a foreign financial institution ("**FFI**") for the purposes of FATCA. If the Issuer is required, or agrees, to provide certain information about its account holders pursuant to a FATCA agreement with the U.S. Internal Revenue Service (i.e. the Issuer is a "**Participating FFI**") then withholding may be triggered if: (i) payments on the Notes are classified as "foreign passthru payments" for purposes of FATCA and (ii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of the Issuer, (b) an investor does not consent, where necessary, to have its information disclosed to the IRS or (c) any FFI that is an investor, or through which payment on the Notes is made, is not a Participating FFI or otherwise exempt from being withheld upon under FATCA.

The United States and Switzerland entered into an intergovernmental agreement to facilitate the implementation of FATCA (an "**IGA**"), which is still, however, subject to ratification. Under the U.S.-Switzerland IGA, financial institutions acting out of Switzerland generally are directed to become Participating FFIs. The United States is in the process of negotiating or in dialogue regarding IGAs with other jurisdictions.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on or with respect to the Notes, the Issuer would have no obligation to pay additional amounts or otherwise indemnify a holder for any such withholding or deduction by the Issuer, a paying agent or any other party as a result of the deduction or withholding of such amount. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected.

An FFI investor that is not a Participating FFI and that is withheld upon generally will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles the investor to a reduced rate of tax on the payment that was subject to withholding under FATCA, provided the required information is furnished in a timely manner to the IRS.

There is a grandfathering rule that generally exempts payments made with respect to obligations that are classified as indebtedness for U.S. federal income purposes that are issued before the date that is six

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months after the publication of regulations defining the term foreign passthru payment. However, the terms of the Notes make it uncertain that they will be classified as indebtedness for these purposes.

Significant aspects of the application of FATCA are not currently clear. Investors should consult their own advisors about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

The EU Savings Directive imposes certain informational and withholding requirements, which are subject to change.

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other EU Member State or to certain limited types of entities established in that other EU Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may require that no tax be withheld) (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The Luxembourg government has announced its intention to elect out of the withholding system in favour of an automatic exchange of information with effect from 1 January 2015. A number of non-EU countries and territories including Switzerland have adopted similar measures to the EU Savings Directive (a withholding system in the case of Switzerland) with the option of the individual to have the paying agent and/or Switzerland provide to the tax authorities of the EU Member State the details of the interest payments in lieu of the withholding.

The European Commission has proposed certain amendments to the EU Savings Directive which, if implemented, may amend or broaden the scope of the requirements described above.

If a payment to an individual were to be made or collected through an EU Member State or a non-EU country (including Switzerland, although at the date hereof Swiss paying agents are not required to withhold EU savings tax on payments in respect of the Notes, see "Taxation Switzerland - EU Savings Tax" below) or a territory which has opted for a withholding system, and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the EU Savings Directive or any other Directive implementing the conclusions of the ECOFIN council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax.

Risks relating to the Market Generally

There is no active trading market for the Notes.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the UBS Group. Although application has been made to the SIX Swiss Exchange for the Notes to be admitted to trading, there is no assurance as to the development or liquidity of any trading market for the Notes.

In addition, holders of Notes should be aware that, in view of the prevailing and widely reported global credit market conditions (which continue at the date hereof), the secondary market for Notes and instruments of this kind may be illiquid. The Issuer cannot predict when these circumstances will change.

Exchange rate risks and exchange controls.

The Issuer will, in the circumstances provided herein, pay principal and interest on the Notes in euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over

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the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to euro would decrease (i) the Investor's Currency-equivalent yield on the Notes, (ii) the Investor's Currency-equivalent value of the principal payable on the Notes and (iii) the Investor's Currency-equivalent market value of the Notes. If the Notes are denominated in a currency other than the currency of the country in which the Holder is resident, the Holder is exposed to the risk of fluctuations in the exchange rate between the two aforementioned currencies. The Holder may also be exposed to a foreign exchange risk if the reference obligation is denominated, or based on prices in a currency other than the currency in which the relevant Note is denominated. Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Changes of law may adversely affect the rights of Holders under the Notes.

The Terms and Conditions are based on Swiss law in effect as at the date of this Listing Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Swiss law or administrative practice after the date of this Listing Prospectus.

Changes in the laws of Switzerland after the date hereof may affect the rights and effective remedies of Holders under the Notes, as well as the market value of the Notes. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Notes, which may have an adverse effect on investment in the Notes.

In particular, any amendment of the Swiss Banking Act or any amendment or implementation of an implementing ordinance or other implementing regulation and any change in their application in respect of the applicable provisions of the Swiss Banking Act or other regulation in respect of UBS, systemically relevant banks or generally could impact the calculation of the CET1 Ratio, the CET1 Capital and the BIS Risk Weighted Assets. Furthermore, because the occurrence of a Trigger Event depends, in part, on the calculation of the CET1 Ratio, any change in Swiss law that affects the calculation of the CET1 Ratio would also affect the determination of whether a Trigger Event Write-down Notice must be given (*i.e.*, whether a Trigger Event will occur). Any such amendment which impacts the calculation of any of the aforementioned ratios can be expected to have an adverse effect on the market value of the Notes.

Also, any change in the National Regulations that would cause the Notes to cease to qualify as Tier 2 Capital and/or Progressive Capital Component would trigger a Regulatory Event, and any change under the laws or regulations of Switzerland or the United States that results in the Issuer paying Additional Amounts or any additional tax in respect of the Notes, would trigger a Tax Event. Furthermore, any change in the Minimum Progressive Capital Component Requirement may trigger a Change in Progressive Capital Component Requirement, and any change in the National Regulations that permits any Relevant Swiss Issuer to issue any capital instrument qualifying as Tier 2 Capital and Progressive Capital Component with a write-down feature and one or more provisions in its terms and conditions that are, in the Issuer's reasonable opinion, different in any material respect from those in the Terms and Conditions, which provisions, if they had been included in the Terms and Conditions, would have prevented the Notes from qualifying as Tier 2 Capital or Progressive Capital Component immediately prior to such change in the National Regulations, would result in an Alignment Event. Upon the occurrence of a Regulatory Event, a Tax Event, a Change in Progressive Capital Component Requirement or an Alignment Event, the Issuer would have the option, subject to certain conditions, to early redeem the Notes (in whole, but not in part). In addition, upon the occurrence of an Alignment Event, the Issuer would also have the option to amend the Terms and Conditions in order to align them to any capital instrument issued by a member of the UBS Group that qualifies as Tier 2 Capital and Progressive Capital Component and has terms and conditions that (x) include a write-down feature and (y) contain one or more provisions that are, in the Issuer's reasonable opinion, different in any material respect from those in

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the Terms and Conditions, which provisions would have prevented the Notes from qualifying as Progressive Capital Component immediately prior to the change in National Regulations related to such Alignment Event, as described in Condition 11 (*Amendments*).

Such legislative and regulatory uncertainty could affect an investor's ability to accurately value the Notes and, therefore, affect the trading price of the Notes given the extent and impact on the Notes of one or more regulatory or legislative changes, including those described above.

In addition, on 24 August 2011, the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent in Switzerland (which may be interpreted to include the Issuer) to deduct Swiss withholding tax at a rate of 35 per cent. on any payment of interest in respect of a debt security, such as the Notes, to an individual resident in Switzerland or to a person resident outside of Switzerland unless certain procedures are complied with to establish that the owner of the debt security is not an individual resident in Switzerland. It is not clear at this time how such procedures will be implemented and such procedures will not be available to certain investment entities. An owner of a Note that is not resident in Switzerland may be able to claim a full or partial refund of the Swiss federal withholding tax by virtue of provisions of an applicable double taxation treaty, if any, between Switzerland and the country of residence of such owner. The double taxation treaty between Switzerland and the United States provides an exemption from Swiss withholding tax for eligible U.S. persons.

If this legislation or similar legislation were enacted and an amount of, or in respect of, Swiss withholding tax were to be deducted or withheld from payments on the Notes pursuant to such legislation, neither the Issuer nor any paying agent nor any other person would, pursuant to the Terms and Conditions, pay Additional Amounts with respect to the Notes as a result of the deduction or imposition of such withholding tax.

Prospective investors in the Notes should consult their tax advisers with respect to the application of the proposed legislation in their particular circumstances.

Any regulatory or legislative changes may also adversely affect UBS's business (see *Risks Factors – Regulatory and legislative changes may adversely affect UBS's business and ability to execute its strategic plans.*).

If the Issuer experiences financial difficulties, the FINMA has the power to open resolution or liquidation proceedings in respect of, and/or impose protective measures in relation to the Issuer, such proceedings or measures may have a material adverse effect on the terms and market value of Notes and/or the ability of the Issuer to make payments thereunder.

Pursuant to article 25 et seq. of the Swiss Banking Act, the FINMA has broad statutory powers to take measures and actions in relation to the Issuer if it (i) is over-indebted, (ii) has serious liquidity problems or (iii) fails to fulfil the applicable capital adequacy provisions after expiry of a deadline set by the FINMA. If one of these pre-requisites is met, the FINMA is authorised to open restructuring proceedings (*Sanierungsverfahren*) or liquidation (bankruptcy) proceedings (*Bankenkonkurs*) in respect of, and/or impose protective measures (*Schutzmassnahmen*) in relation to, the Issuer. The Swiss Banking Act, as last amended as of 1 September 2011 and 1 March 2012 and 1 January 2013, grants significant discretion to the FINMA in connection with the aforementioned proceedings and measures. In particular, a broad variety of protective measures may be imposed by the FINMA, including a bank moratorium (*Stundung*) or a maturity postponement (*Fälligkeitsaufschub*), which measures may be ordered by the FINMA either on a stand-alone basis or in connection with reorganisation or liquidation proceedings. The resolution regime of the Swiss Banking Act is further detailed in the FINMA Banking Insolvency Ordinance ("**BIO-FINMA**") that entered into force as of 1 November 2012. In a restructuring proceeding, the FINMA, as resolution authority, is competent to approve the resolution plan (*Sanierungsplan*). The resolution plan may, among other things, provide for (a) the transfer of the Issuer's assets or a portion thereof, together with debts and other liabilities, and contracts (which may or may not include the contractual relationship between the Issuer and the Holders) of the Issuer, to another entity, (b) the conversion of the Issuer's debt and/or other obligations into equity (a "debt-to-equity" swap), and/or (c) for the partial or full write-off of obligations owed by the Issuer (a "haircut"). Pursuant to article 48 lit. a-c BIO-FINMA, a debt-to-equity swap and/or a partial or full haircut on debt instruments may only take place after (i) all debt instruments issued by the Issuer qualifying as additional tier 1 capital or tier 2 capital have been converted into equity, and (ii) the existing equity of the Issuer has been fully cancelled. Further, pursuant to article 48 lit. d of the BIO-FINMA, debt-to-equity swaps (but arguably not haircuts) must occur in the following order: (i)

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all subordinated claims not qualifying as regulatory capital, (ii) all other claims not excluded by law from a debt-to-equity swap, and (iii) deposits (in excess of the amount privileged by law). With respect to a haircut, the BIO-FINMA does not contain any guidance as to the order in which different categories of claims shall be partially or fully written off.

While the Terms and Conditions provide for a contractual write-down of the claims of Holders under the Notes (i) if a Trigger Event occurs or (ii) if, upon the occurrence of a Viability Event, the Issuer gives a Write-down Notice to the Holders in accordance with the Terms and Conditions, it cannot be excluded that the claims of Holders will not be adversely affected as well or instead under the resolution regime described above. Also, the FINMA may decide that a Viability Event has occurred and require the Notes to be fully written down based on the relevant provisions contained in the Terms and Conditions regardless of whether or not the above-mentioned conditions for exercising its statutory powers are met and/or without respecting the principles and safeguards that apply to measures taken by the FINMA in a formal resolution or liquidation proceeding.

Risks relating to UBS

Certain risks, including those described below, may impact UBS's ability to execute its strategy and affect its business activities, financial condition, results of operations and prospects. Because the business of a broad-based international financial services firm such as UBS is inherently exposed to risks that become apparent only with the benefit of hindsight, risks of which UBS is not presently aware or which it currently does not consider to be material could also impact its ability to execute its strategy and affect its business activities, financial condition, results of operations and prospects.

Regulatory and legislative changes may adversely affect UBS's business and ability to execute its strategic plans

Fundamental changes in the laws and regulations affecting financial institutions could have a material and adverse effect on UBS's business. In the wake of the 2007–2009 financial crisis and the continuing instability in global financial markets, regulators and legislators have proposed, have adopted, or are actively considering, a wide range of changes to these laws and regulations. These measures are generally designed to address the perceived causes of the crisis and to limit the systemic risks posed by major financial institutions. They include the following:

- significantly higher regulatory capital requirements;
- changes in the definition and calculation of regulatory capital;
- changes in the calculation of risk-weighted assets (RWA);
- the introduction of a more demanding leverage ratio;
- new or significantly enhanced liquidity requirements;
- requirements to maintain liquidity and capital in jurisdictions in which activities are conducted and booked;
- limitations on principal trading and other activities;
- new licensing, registration and compliance regimes;
- limitations on risk concentrations and maximum levels of risk;
- taxes and government levies that would effectively limit balance sheet growth or reduce the profitability of trading and other activities;
- cross-border market access restrictions;
- a variety of measures constraining, taxing or imposing additional requirements relating to compensation;

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- adoption of new liquidation regimes intended to prioritise the preservation of systemically significant functions;
- requirements to adopt structural and other changes designed to reduce systemic risk and to make major financial institutions easier to manage, restructure, disassemble or liquidate, including ring-fencing certain activities and operations within separate legal entities; and
- requirements to adopt risk governance structures at a local jurisdiction level.

A number of measures have been adopted and will be implemented over the next several years; some are subject to legislative action or to further rulemaking by regulatory authorities before final implementation. As a result, there is a high level of uncertainty regarding a number of the measures referred to above, including whether (or the form in which) they will be adopted, the timing and content of implementing regulations and interpretations and / or the dates of their effectiveness.

Notwithstanding attempts by regulators to coordinate their efforts, the measures adopted or proposed differ significantly across the major jurisdictions, making it increasingly difficult to manage a global institution. The absence of a coordinated approach, moreover, disadvantages institutions headquartered in jurisdictions that impose relatively more stringent standards. Switzerland has adopted capital and liquidity requirements for its major international banks that are the strictest among the major financial centres. This could disadvantage Swiss banks such as UBS when they compete with peer financial institutions subject to more lenient regulation or with unregulated non-bank competitors.

Regulatory and legislative changes in Switzerland

In September 2011, the Swiss parliament adopted the "too-big-to-fail" ("**TBTF**") law to address the issues posed by large banks. The law became effective on 1 March 2012. Accordingly, Swiss regulatory change efforts have generally proceeded more quickly than those in other major jurisdictions, and the Swiss Financial Market Supervisory Authority (FINMA), the Swiss National Bank (SNB) and the Swiss Federal Council are implementing requirements that are significantly more onerous and restrictive for major Swiss banks, such as UBS, than those adopted or proposed by regulatory authorities in other major global financial centres.

Capital Regulation. The provisions of the revised banking ordinance and capital adequacy ordinance implementing the Basel III capital standards and the Swiss "too-big-to-fail" law became effective on 1 January 2013. As a systemically relevant Swiss bank, UBS is subject to base capital requirements and a "progressive buffer" that scales with UBS's total exposure (a metric that measures UBS's balance sheet size) and market share in Switzerland. In addition, the Swiss governmental authorities have the authority to impose an additional countercyclical buffer capital requirement of up to 2.5%. This authority has been exercised to impose an additional capital charge of 1% in respect of RWA arising from Swiss retail mortgages (increasing to 2% effective from the end of June 2014). In addition, UBS and FINMA have mutually agreed to an incremental operational capital requirement to be held against litigation, regulatory and similar matters and other contingent liabilities, which added approximately CHF 22.5 billion to UBS's RWA at 31 December 2013. There can be no assurance that UBS will not in the future be subject to increases in capital requirements either from the imposition of additional requirements or changes in the calculation of RWA or other components of the existing minimum capital requirement.

Liquidity and Funding. UBS is required to maintain a "liquidity coverage ratio" ("**LCR**") of high quality liquid assets to estimated stressed short term funding outflows and will be required to maintain a "net stable funding ratio" ("**NSFR**") intended to ensure that it is not overly reliant on short term funding and that it has sufficient long term funding for illiquid assets. UBS currently calculates these ratios under supervisory guidance from FINMA, as both the international and Swiss standards for the calculation of these requirements have not been fully implemented. These requirements, together with liquidity requirements imposed by other jurisdictions in which UBS operates, will likely require UBS to maintain substantially higher levels of overall liquidity. Increased capital requirements and higher liquidity requirements make certain lines of business less attractive and may reduce our overall ability to generate profits. The LCR and NSFR calculations make assumptions about the relative likelihood and amount of outflows of funding and available sources of additional funding in a market or firm-specific stress situation. There can be no assurance that in an actual stress situation UBS's funding outflows would not exceed the assumed amounts.

Resolution Planning and Resolvability. The revised banking act and capital adequacy ordinances provide FINMA with additional powers to intervene to prevent a failure or resolve a failing financial institution. These measures may be triggered when certain thresholds are breached and permit the exercise of considerable discretion by FINMA in determining whether, when or in what manner to exercise such powers. In case of a threatened insolvency, FINMA may impose more onerous requirements on UBS, including the restrictions on the payment of dividends and interest. Although the actions that FINMA may take in such circumstances are not yet defined, UBS could be required directly or indirectly, for example, to alter its legal structure (e.g. to separate lines of business into dedicated entities, with limitations on intra-group funding and certain guarantees), or to further reduce business risk levels in some manner. The banking act also provides FINMA with powers in connection with the ability to extinguish or convert to common equity the liabilities of a bank in connection with its resolution.

Swiss TBTF requirements require systemically important banks, including UBS, to put in place viable emergency plans to preserve the operation of systemically important functions despite a failure of the institution, to the extent that such activities are not sufficiently separated in advance. The Swiss TBTF law provides for the possibility of a limited reduction of capital requirements for systemically important institutions that adopt measures to reduce resolvability risk beyond what is legally required. In view of these factors, UBS intends to establish a new banking subsidiary of UBS AG in Switzerland. The scope of this potential future subsidiary's business is still being determined, but UBS would currently expect it to include its Retail & Corporate business division and likely the Swiss-booked business within its Wealth Management business division. UBS expects to implement this change in a phased approach starting in mid-2015. This structural change is being discussed on an ongoing basis with FINMA, and remains subject to a number of uncertainties that may affect its feasibility, scope or timing. UBS may consider further changes to the legal structure of the group in response to regulatory requirements in Switzerland or in other countries in which it operates, including to improve the resolvability of the UBS group, to respond to Swiss and other capital requirements (including seeking potential reduction in the progressive buffer requirement as applied to UBS) and to respond to regulatory required changes in legal structure. See "Regulatory and legislative changes outside Switzerland" for a description of regulatory and legislative developments that may affect these decisions.

In September 2013, the Swiss National Council approved two motions for the mandatory structural reform of banks in Switzerland that would, if also adopted by the Council of States, result in the submission to Parliament of a law requiring the separation of certain investment banking activities from systemically relevant activities, such as retail and commercial banking. No date has been set for the debate. It is unclear whether, when and in what form such a law will be adopted.

Market Regulation. The Swiss government is working on fundamentally reviewing the rules on market infrastructure and on the relationship between UBS and its clients. These laws may, if enacted, have a material impact on the market infrastructure that UBS uses, available platforms, collateral management and the way UBS interacts with clients. In addition, these initiatives may cause UBS to incur material implementation costs.

Regulatory and legislative changes outside Switzerland

Regulatory and legislative changes in other locations in which UBS operates may subject UBS to a wide range of new restrictions both in individual jurisdictions and, in some cases, globally.

Banking Structure and Activity Limitations. Some of these regulatory and legislative changes may subject UBS to requirements to move activities from UBS AG branches into subsidiaries. Such "subsidiarisation" can create operational, capital and tax inefficiencies, increase UBS's aggregate credit exposure to counterparties as they transact with multiple UBS AG affiliates, expose UBS's businesses to higher local capital requirements, and potentially give rise to client and counterparty concerns about the credit quality of individual subsidiaries. Such changes could also negatively impact UBS's funding model and severely limit its booking flexibility. For example, UBS has significant operations in the UK and currently uses UBS AG's London branch as a global booking centre for many types of products. UBS is being required by the UK Prudential Regulatory Authority and by FINMA to increase very substantially the capitalisation of its UK bank subsidiary, UBS Limited, and expects to be required to change its booking practices to reduce or even eliminate its utilisation of UBS AG London branch as a global booking centre for the ongoing business of the Investment Bank. In addition, the UK Independent Commission on Banking has recommended structural and non-structural reforms of the banking sector, most of which have been endorsed by the UK government and implemented in the Financial Services

(Banking Reform) Act. Key measures proposed include the ring-fencing of retail banking activities in the UK (which should not impact UBS directly), additional common equity tier 1 capital requirements of up to 3% of RWA for retail banks, and the issuance by UK banks of debt subject to "bail-in" provisions. Furthermore, the EU Commission's recent proposals in light of the Liikanen report also advocate a Volker-style prohibition on proprietary trading together with a separation of trading from banking activities. The applicability and implications of such changes to offices and subsidiaries of foreign banks are not yet entirely clear, but they could have a material effect on UBS's businesses located or booked in the UK.

At the end of 2012, the Federal Reserve issued proposed regulations for enhanced prudential standards for foreign banking organisations in the US under Sections 165 and 166 of the Dodd-Frank Act. These proposed regulations include (i) a requirement that US subsidiary operations be held through an intermediate holding company subject to US regulation, (ii) risk-based capital and leverage requirements, (iii) liquidity requirements (both substantive and procedural), (iv) single-counterparty credit limits, (v) risk management and risk committee requirements, (vi) stress test requirements, including public disclosure of the results, (vii) a debt-to-equity limit, and (viii) a framework for early remediation of financial weaknesses.

US regulators published final regulations implementing the Volcker Rule in December 2013 and generally extended until 2015 the time to conform to this rule and the related regulations. In general, the Volcker Rule prohibits any banking entity from engaging in proprietary trading and from owning interests in hedge funds and other private fund vehicles. The Volcker Rule also broadly limits investments and other transactional activities between a bank and funds that the bank has sponsored or with which the bank has certain other relationships. UBS's earlier strategy decision to exit its equity proprietary trading businesses, together with certain business lines, will assist UBS in complying with the regulatory requirements. In addition, the Volcker Rule permits UBS and other non-US banking entities to engage in certain activities that would otherwise be prohibited to the extent that they are conducted solely outside the US. UBS continues to evaluate the final rule and its impact on UBS's activities. The Volcker Rule could have a substantial impact on market liquidity and the economics of market-making activities.

OTC Derivatives Regulation. In 2009, the G20 countries committed to require all standardised over-the-counter (OTC) derivative contracts to be traded on exchanges or trading facilities and cleared through central counterparties by the end of 2012. This commitment is being implemented through the Dodd-Frank Act in the US and corresponding legislation in the European Union, Switzerland and other jurisdictions, and will have a significant impact on UBS's OTC derivatives business, which is conducted primarily in the Investment Bank. For example, UBS expects that, as a rule, the shift of OTC derivatives trading to a central clearing model will tend to reduce profit margins in these products, although some market participants may be able to offset this effect with higher trading volumes in commoditised products. Although UBS is preparing for these thematic market changes, they are likely to reduce the revenue potential of certain lines of business for market participants generally, and UBS may be adversely affected.

UBS AG registered as a swap dealer in the US at the end of 2012 enabling the continuation of swaps business with US persons. UBS also expects that UBS AG will be required to register as a securities based swap dealer with the US Securities and Exchange Commission when required. Regulations issued by the Commodity Futures Trading Commission (CFTC) impose substantial new requirements on registered swap dealers for clearing, trade execution, transaction reporting, recordkeeping, risk management and business conduct. Certain of the CFTC's regulations, including those relating to swap data reporting, recordkeeping, compliance and supervision, are expected to apply to UBS AG globally. In July 2013, the CFTC approved final cross-border guidance that defines the extraterritorial application of its swaps regulations. This guidance may allow non-US swap dealers, such as UBS AG, to operate on the basis of "substituted compliance," under which they may comply with home country requirements instead of the corresponding CFTC requirements if the CFTC determines the home country requirements to be "comprehensive and comparable". In December 2013, the CFTC issued comparability determinations for Switzerland (as well as the home countries of certain other non-US swap dealers) that will allow UBS to comply with relevant Swiss regulations instead of CFTC requirements for many, but not all, of the CFTC regulations for which substituted compliance is available. While the CFTC deferred a comparability determination on swap data reporting requirements as it continues to review the issue, it granted reporting no-action relief that allows UBS AG (and other non-US swap dealers) to delay reporting transactions with non-US persons for several months. The CFTC's regulations will apply to swaps between non-US

persons and non-US swap dealers when US personnel are involved, but in January 2014, the CFTC delayed the applicability of US regulations in this context until 15 September 2014, giving additional time for foreign swap dealers to comply with US requirements regarding transactions with non-US persons conducted from the US. Application of these requirements to UBS's swaps business with non-US persons continues to present a substantial implementation burden, will likely duplicate or conflict with legal requirements applicable to UBS outside of the United States and may place UBS at a competitive disadvantage to firms that are not CFTC-registered swap dealers.

Regulation of Cross Border Provision of Financial Services. In many instances, UBS provides services on a cross-border basis and is therefore sensitive to barriers restricting market access for third-country firms. In particular, efforts in the European Union (EU) to harmonise the regime for third-country firms to access the European market may have the effect of creating new barriers that adversely affect UBS's ability to conduct business in these jurisdictions from Switzerland. In addition, a number of jurisdictions are increasingly regulating cross-border activities on the basis of some notion of comity (e.g., substituted compliance, equivalence determination). While the issuance of such determinations in particular jurisdictions may ensure market access for UBS to those jurisdictions, a negative determination in other jurisdictions may negatively influence UBS's ability to act as global firm. In addition, as jurisdictions tend to apply such determinations on a jurisdictional level rather than on an entity level, UBS will generally need to rely on jurisdictions' willingness to collaborate.

Resolution and recovery; bail-in

UBS is currently required to produce recovery and resolution plans in the US, UK, Switzerland and Germany and is likely to face similar requirements for its operations in other jurisdictions, including its operations in the EU as a whole, as part of the proposed EU Recovery and Resolution Directive.

Resolution plans may increase the pressure on UBS to make structural changes, such as the creation of separate legal entities, if the resolution plan in any jurisdiction identifies impediments that are not acceptable to the relevant regulators. Such structural changes may negatively impact UBS's ability to benefit from synergies between business units, and if they include the creation of separate legal entities, may have the other negative consequences mentioned above with respect to "subsidiarisation" more generally.

In addition, a number of jurisdictions, including Switzerland, the US, the UK and the EU, have implemented or are considering implementing changes that would allow resolution authorities to write down or convert into equity unsecured debt to effectuate a so-called "bail-in". Some jurisdictions are also considering adopting requirements that regulated firms maintain specified amounts of unsecured debt that could increase loss absorbing capacity. The scope of bail-in authority and the legal mechanisms that would be utilised for the purpose are subject to a great deal of development and interpretation. Depending upon the outcome, bail-in authority may have a significant effect on UBS's funding costs.

Possible consequences of regulatory and legislative developments

The planned and potential regulatory and legislative developments in Switzerland and in other jurisdictions in which UBS has operations may have a material adverse effect on UBS's ability to execute its strategic plans, on the profitability or viability of certain business lines globally or in particular locations, and in some cases on its ability to compete with other financial institutions. They are likely to be costly to implement and could also have a negative impact on UBS's legal structure or business model. Finally, the uncertainty related to or the implementation of legislative and regulatory changes may have a negative impact on UBS's relationships with clients and its success in attracting client business.

UBS's capital strength is important in supporting its strategy, client franchise and competitive position

UBS's capital position, as measured by the common equity tier 1, tier 1 and total capital ratios under Basel III requirements, is determined by (i) RWA (credit, non-counterparty related, market and operational risk positions, measured and risk-weighted according to regulatory criteria) and (ii) eligible capital. Both RWA and eligible capital are subject to change. Eligible capital would be reduced if UBS experiences net losses or losses through the other comprehensive income account, as determined for the purpose of the regulatory capital calculation, which may also render it more difficult or more costly for UBS to raise new capital. Eligible capital can also be reduced for a number of other reasons, including certain reductions in the ratings of securitisation exposures, adverse currency movements affecting the

value of equity, prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions, and changes in the value of certain pension fund assets recognised in other comprehensive income. RWA, on the other hand, are driven by UBS's business activities and by changes in the risk profile of its exposures. For instance, substantial market volatility, a widening of credit spreads (the major driver of UBS's value-at-risk), adverse currency movements, increased counterparty risk, a deterioration in the economic environment, or increased operational risk could result in a rise in RWA. Any such reduction in eligible capital or increase in RWA could materially reduce UBS's capital ratios. Risks captured in the operational risk component of RWA have become increasingly significant as a component of UBS's overall RWA as a result of significant reductions in market and credit risk RWA as UBS executes its strategy and increased operation risk charges arising from operational risk events (including charges arising from litigation, regulatory and similar matters). UBS has agreed with FINMA on a supplemental analysis that will be used to calculate an incremental operational risk capital charge to be held for litigation, regulatory and similar matters and other contingent liabilities. The incremental RWA calculated based on this supplemental analysis as of 31 December 2013 was CHF 22.5 billion. Future developments in and the ultimate elimination of the incremental RWA attributable to the supplemental analysis will depend on provisions charged to earnings for litigation, regulatory and similar matters and other contingent liabilities and on developments in these matters. There can be no assurance that UBS will be successful in addressing these matters and reducing or eliminating the incremental operational risk RWA.

The required levels and calculation of UBS's regulatory capital and the calculation of its RWA are also subject to changes in regulatory requirements or their interpretation, as well the exercise of regulatory discretion. The changes in the calculation of RWA under Basel III and Swiss requirements (such as the revised treatment of certain securitisation exposures under the Basel III framework) have significantly increased the level of UBS's RWA and, therefore, have adversely affected UBS's capital ratios. UBS has achieved substantial reductions in RWA, in part to mitigate the effects of increased capital requirements. However, there is a risk that UBS will not be successful in pursuing its plans to further reduce RWA, either because it is unable to carry out fully the actions it has planned or because other business or regulatory developments or actions to some degree counteract the benefit of its actions.

In addition to the risk-based capital requirements, UBS is subject to a minimum leverage ratio requirement for Swiss systemically relevant banks. The leverage ratio operates separately from the risk-based capital requirements, and, accordingly, under certain circumstances could constrain UBS's business activities even if UBS is able to satisfy other risk-based capital requirements. UBS has achieved substantial reductions in its balance sheet size and anticipates further reductions as it winds down its Non-core and Legacy Portfolio positions. These reductions would improve UBS's leverage ratio and contribute to UBS's ability to comply with the more stringent leverage ratio requirements scheduled to become effective in future years. There can be no assurance that these plans will be successfully executed. There is also a risk that the minimum leverage ratio requirement will be increased significantly beyond the levels currently scheduled to go into effect, making it more difficult for UBS to satisfy the requirements without adversely affecting certain of its businesses.

Changes in the Swiss requirements for risk-based capital or leverage ratios, whether pertaining to the minimum levels required for large Swiss banks or to the calculation thereof, could have a material adverse effect on UBS's business and could affect its competitive position internationally compared with institutions that are regulated under different regimes.

UBS may not be successful in completing its announced strategic plans or in implementing changes in its businesses to meet changing market, regulatory and other conditions

In October 2012, UBS announced a significant acceleration in the implementation of its strategy. The strategy included transforming UBS's Investment Bank to focus it on its traditional strengths, very significantly reducing Basel III RWA and further strengthening UBS's capital position, and significantly reducing costs and improving efficiency across the Group. UBS has made significant progress in implementing the strategy and as of end of 2013 is ahead of the majority of its performance targets. There continues to be a risk that UBS will not be successful in completing the execution of its plans, or that the effects of its plans may differ from those intended.

UBS also has under way a program to achieve significant incremental cost savings as a result of the actions it is taking in the Investment Bank and through further Group-wide efficiency measures. The success of UBS's strategy and its ability to reach certain of the targets it has announced depends heavily

on the effectiveness of the cost-saving and efficiency measures UBS is able to carry out. As is often the case with major cost-reduction and efficiency programs, UBS's plans involve significant risks. Included among these are the risks that restructuring costs may be higher and may be recognised sooner than UBS has projected and that UBS may not be able to identify feasible cost-saving opportunities at the level of its savings objective that are also consistent with its business goals. In addition, when UBS implements its cost-saving and efficiency programs it may experience unintended consequences such as the loss or degradation of capabilities that it needs in order to maintain its competitive position and achieve its targeted returns.

UBS experienced substantial net outflows of client assets in its wealth management and asset management businesses in 2008 and 2009. The net outflows resulted from a number of different factors, including UBS's substantial losses, the damage to its reputation, the loss of client advisors, difficulty in recruiting qualified client advisors and tax, legal and regulatory developments concerning UBS's cross-border private banking business. Many of these factors have been successfully addressed. UBS's Wealth Management and Wealth Management Americas business divisions recorded substantial net new money inflows in 2013. Long-term changes affecting the cross-border private banking business model will, however, continue to affect client flows in the Wealth Management business division for an extended period of time. One of the important drivers behind the longer-term reduction in the amount of cross-border private banking assets, particularly in Europe but increasingly also in other regions, is the heightened focus of fiscal authorities on cross-border investments. Changes in local tax laws or regulations and their enforcement may affect the ability or the willingness of UBS's clients to do business with UBS or the viability of UBS's strategies and business model. In 2012 and 2013, UBS experienced net withdrawals in its Swiss booking centre from clients domiciled elsewhere in Europe, in many cases related to the negotiation of tax treaties between Switzerland and other countries, including the treaty with Germany that was ultimately not ratified by Germany.

The net new money inflows in recent years in UBS's Wealth Management business division have come predominantly from clients in Asia-Pacific and in the high net worth segment globally. Over time, inflows from these lower-margin segments and markets have been replacing outflows from higher-margin segments and markets, in particular cross-border European clients. This dynamic, combined with changes in client product preferences as a result of which low-margin products account for a larger share of UBS's revenues than in the past, put downward pressure on UBS's return on invested assets and adversely affect the profitability of our Wealth Management business division. UBS has implemented changes in its product offerings and service improvements in an effort to overcome the effects of these changes in the business mix on its profitability, but there can be no assurance that UBS will be able to counteract those effects. UBS has also made changes to its business offerings and pricing practices in line with the Swiss Supreme Court case concerning "retrocessions" and other industry developments. These changes may adversely affect UBS's margins on these products and the current offering may be less attractive to clients than the products it replaces. There can be no assurance that UBS will be successful in its efforts to offset the adverse impact of these trends and developments.

In 2012 and 2013, Global Asset Management experienced net outflows of client assets. Further net outflows of client assets are likely over time to adversely affect the results of the business division.

Material legal and regulatory risks arise in the conduct of UBS's business

The nature of its business subjects UBS to significant regulatory oversight and liability risk. As a global financial services firm operating in more than 50 countries, UBS is subject to many different legal, tax and regulatory regimes. It is involved in a variety of claims, disputes, legal proceedings and government investigations in jurisdictions where it is active. These proceedings expose UBS to substantial monetary damages and legal defense costs, injunctive relief and criminal and civil penalties, in addition to potential regulatory restrictions on its businesses. The outcome of most of these matters, and their potential effect on UBS's future business or financial results, is extremely difficult to predict.

UBS is subject to a large number of claims, disputes, legal proceedings and government investigations and expect that its ongoing business activities will continue to give rise to such matters in the future. The extent of UBS's financial exposure to these and other matters could be material and could substantially exceed the level of provisions that UBS has established for litigation, regulatory and similar matters.

In December 2012, UBS announced settlements totaling approximately CHF 1.4 billion in fines by and disgorgements to US, UK and Swiss authorities to resolve LIBOR-related investigations with those

authorities. UBS Securities Japan Co. Ltd. also pled guilty to one count of wire fraud relating to the manipulation of certain benchmark interest rates. The settlements do not resolve investigations by other authorities or civil claims that have been or may in the future be asserted by private and governmental claimants with respect to submissions for LIBOR or other benchmark interest rates. The extent of UBS's financial exposure to these remaining matters is extremely difficult to estimate and could be material.

The LIBOR-related settlements starkly illustrate the much-increased level of financial risk now associated with regulatory matters and regulatory enforcement in major jurisdictions. These very large amounts were assessed, and the guilty plea of a UBS subsidiary was required, in spite of UBS's full cooperation with the authorities in their investigations, as a result of which UBS was granted conditional leniency or conditional immunity with respect to certain benchmark interest rates by antitrust authorities in a number of jurisdictions including the US and Switzerland. UBS understands that, in determining the consequences to UBS, the US authorities took into account the fact that UBS has in the recent past been determined to have engaged in serious misconduct in a number of other matters. As a result of this history and regulatory perception, UBS's level of risk with respect to regulatory enforcement may be greater than that of peer institutions.

Considering its overall exposures and the current regulatory and political climate affecting financial institutions, UBS expects charges associated with legal, regulatory and similar matters to remain at elevated levels at least through 2014.

UBS is determined to address the issues that have arisen in the above and other matters in a thorough and constructive manner. UBS is in active dialogue with its regulators concerning the actions that it is taking to improve its operational risk management and control framework. Ever since its losses in 2007 and 2008, UBS has been subject to a very high level of regulatory scrutiny and to certain regulatory measures that constrain its strategic flexibility. While UBS believes that it has remediated the deficiencies that led to the material losses during the 2007–2009 financial crisis, the unauthorised trading incident announced in September 2011 and the LIBOR-related settlements of 2012, the effects of these matters on its reputation and relationships with regulatory authorities have proven to be more difficult to overcome. For example, following the unauthorised trading incident FINMA informed UBS that it would not be permitted to undertake acquisitions in its Investment Bank unit (unless FINMA granted an exception), and that material new business initiatives in that unit would be subject to FINMA oversight. Although UBS has significantly enhanced its operational risk management and control framework in general and specifically addressed the deficiencies highlighted by the unauthorised trading incident in particular, these special restrictions have not been withdrawn by FINMA to date, pending independent confirmation of the effectiveness of these enhancements to FINMA's satisfaction. As this example illustrates, difficulties associated with UBS's relationships with regulatory authorities have the potential to adversely affect the execution of its business strategy.

Operational risks may affect UBS's business

All of UBS's businesses are dependent on UBS's ability to process a large number of complex transactions across multiple and diverse markets in different currencies, to comply with requirements of many different legal and regulatory regimes to which UBS is subject and to prevent, or promptly detect and stop, unauthorised, fictitious or fraudulent transactions. UBS's operational risk management and control systems and processes are designed to help ensure that the risks associated with UBS's activities, including those arising from process error, failed execution, unauthorised trading, fraud, system failures, cyber-attacks, breaches of information security and failure of security and physical protection, are appropriately controlled.

For example, cyber-crime is a fast growing threat to large organisations that rely on technology to support its business, like UBS. Cyber-crime can range from internet based attacks that interfere with the organisations' internet websites, to more sophisticated crimes that target the organisations, as well as their clients, and seek to gain unauthorised access to technology systems in efforts to disrupt business, steal money or obtain sensitive information.

A major focus of US governmental policy relating to financial institutions in recent years has been fighting money laundering and terrorist financing. Regulations applicable to UBS and its subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of their clients. Failure to maintain

and implement adequate programs to combat money laundering and terrorist financing could have serious consequences, both in legal terms and in terms of UBS's reputation.

Although UBS is continuously adapting its capability to detect and respond to the risks described above, if UBS's internal controls fail or prove ineffective in identifying and remedying them UBS could suffer operational failures that might result in material losses, such as the loss from the unauthorised trading incident announced in September 2011.

Participation in high-volume and high-frequency trading activities, even in the execution of client-driven business, can also expose UBS to operational risks. UBS's loss in 2012 relating to the Facebook initial public offering illustrates the exposure participants in these activities have to unexpected results arising not only from their own systems and processes but also from the behavior of exchanges, clearing systems and other third parties and from the performance of third party systems.

Certain types of operational control weaknesses and failures could also adversely affect UBS's ability to prepare and publish accurate and timely financial reports. UBS identified control deficiencies following the unauthorised trading incident announced in September 2011, and management determined that UBS had a material weakness in its internal control over financial reporting as of the end of 2010 and 2011, although this has not affected the reliability of its financial statements for either year.

In addition, despite the contingency plans it has in place, UBS's ability to conduct business may be adversely affected by a disruption in the infrastructure that supports its businesses and the communities in which it is located. This may include a disruption due to natural disasters, pandemics, civil unrest, war or terrorism and involve electrical, communications, transportation or other services used by UBS or third parties with whom UBS conducts business.

UBS's reputation is critical to the success of its business

UBS's reputation is critical to the success of its strategic plans. Damage to its reputation can have fundamental negative effects on UBS's business and prospects. Reputational damage is difficult to reverse, and improvements tend to be slow and difficult to measure. This was demonstrated in recent years as UBS's very large losses during the financial crisis, the US cross-border matter and other events seriously damaged its reputation. Reputational damage was an important factor in UBS's loss of clients and client assets across its asset-gathering businesses, and contributed to its loss of and difficulty in attracting staff, in 2008 and 2009. These developments had short-term and also more lasting adverse effects on UBS's financial performance, and UBS recognised that restoring its reputation would be essential to maintaining its relationships with clients, investors, regulators and the general public, as well as with its employees. More recently, the unauthorised trading incident announced in September 2011, and UBS's involvement in the LIBOR scandal also adversely affected UBS's reputation. Any further reputational damage could have a material adverse effect on UBS's operational results and financial condition and on UBS's ability to achieve its strategic goals and financial targets.

Performance in the financial services industry is affected by market conditions and the macroeconomic climate

The financial services industry prospers in conditions of economic growth; stable geopolitical conditions; transparent, liquid and buoyant capital markets and positive investor sentiment. An economic downturn, continued low interest rates or a severe financial crisis can negatively affect UBS's revenues and ultimately UBS's capital base.

A market downturn and weak macroeconomic conditions can be precipitated by a number of factors, including geopolitical events, changes in monetary or fiscal policy, trade imbalances, natural disasters, pandemics, civil unrest, war or terrorism. Because financial markets are global and highly interconnected, even local and regional events can have widespread impacts well beyond the countries in which they occur. A crisis could develop, regionally or globally, as a result of disruptions in emerging markets as well as developed markets that are susceptible to macroeconomic and political developments, or as a result of the failure of a major market participant. UBS has material exposures to a number of these markets, both as a wealth manager and as an investment bank. Moreover, UBS's strategic plans depend more heavily upon its ability to generate growth and revenue in the emerging markets, causing UBS to be more exposed to the risks associated with them. The continued absence of sustained and credible improvements to unresolved issues in Europe, continued US fiscal and monetary policy issues,

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emerging markets fragility and the mixed outlook for global growth demonstrate that macroeconomic and political developments can have unpredictable and destabilising effects. Adverse developments of these kinds have affected UBS's businesses in a number of ways, and may continue to have further adverse effects on UBS's businesses as follows:

- a general reduction in business activity and market volumes, as UBS has experienced in the last two years, affects fees, commissions and margins from market-making and client-driven transactions and activities; local or regional economic factors, such as the ongoing European sovereign debt and banking industry concerns, could also have an effect on UBS;
- a market downturn is likely to reduce the volume and valuations of assets UBS manages on behalf of clients, reducing UBS's asset- and performance-based fees;
- a further extended period of low interest rates will continue to erode interest margins in several of UBS's businesses;
- reduced market liquidity or volatility limits trading and arbitrage opportunities and impedes UBS's ability to manage risks, impacting both trading income and performance-based fees;
- assets UBS owns and accounts for as investments or trading positions could fall in value;
- impairments and defaults on credit exposures and on trading and investment positions could increase, and losses may be exacerbated by falling collateral values; and
- if individual countries impose restrictions on cross-border payments or other exchange or capital controls, or change their currency (for example, if one or more countries should leave the euro), UBS could suffer losses from enforced default by counterparties, be unable to access its own assets, or be impeded in – or prevented from – managing its risks.

Because UBS has very substantial exposures to other major financial institutions, the failure of one or more of such institutions could have a material effect on UBS.

The developments mentioned above can materially affect the performance of UBS's business units and of UBS as a whole, and ultimately its financial condition. As discussed below, there is also a somewhat related risk that the carrying value of goodwill of a business unit might suffer impairments and deferred tax assets levels may need to be adjusted.

UBS holds legacy and other risk positions that may be adversely affected by conditions in the financial markets; legacy risk positions may be difficult to liquidate

UBS, like other financial market participants, was severely affected by the financial crisis that began in 2007. The deterioration of financial markets since the beginning of the crisis was extremely severe by historical standards, and UBS recorded substantial losses on fixed income trading positions, particularly in 2008 and 2009. Although UBS has very significantly reduced its risk exposures starting in 2008, and more recently as it implements its strategy and focuses on complying with Basel III capital standards, it continues to hold substantial legacy risk positions. In many cases these risk positions continue to be illiquid, and UBS remains exposed to the risk that the remaining positions may again deteriorate in value. In the fourth quarter of 2008 and the first quarter of 2009, certain of these positions were reclassified for accounting purposes from fair value to amortised cost; these assets are subject to possible impairment due to changes in market interest rates and other factors.

Although UBS has substantially reduced the RWA and balance sheet usage associated with its non-core and legacy risk positions, as discussed above, there can be no assurance that UBS will be able to liquidate them as quickly as its plans suggest or that it will not incur significant losses in doing so. The continued illiquidity and complexity of many of the legacy risk positions in particular could make it difficult to sell or otherwise liquidate these positions. At the same time, UBS's strategy rests heavily on its ability to reduce sharply the RWA associated with these exposures in order to meet its future capital targets and requirements without incurring unacceptable losses. UBS holds positions related to real estate in various countries, and could suffer losses on these positions. These positions include a very substantial Swiss mortgage portfolio. Although management believes that this portfolio has been very prudently managed,

UBS could nevertheless be exposed to losses if the concerns expressed by the Swiss National Bank and others about unsustainable price escalation in the Swiss real estate market come to fruition.

In addition, UBS is exposed to risk in its prime brokerage, reverse repo and Lombard lending activities, as the value or liquidity of the assets against which it provides financing may decline rapidly.

Its global presence subjects UBS to risk from currency fluctuations

UBS prepares its consolidated financial statements in Swiss francs. However, a substantial portion of its assets, liabilities, invested assets, revenues and expenses are denominated in other currencies, particularly the US dollar, the euro and the British pound. Accordingly, changes in foreign exchange rates, particularly between the Swiss franc and the US dollar (US dollar revenues account for the largest portion of UBS's non-Swiss franc revenues) have an effect on UBS's reported income and expenses, and on other reported figures such as invested assets, balance sheet assets, RWA and tier 1 capital. For example, in 2011 the strengthening of the Swiss franc, especially against the US dollar and euro, had an adverse effect on UBS's revenues and invested assets. Because exchange rates are subject to constant change, sometimes for completely unpredictable reasons, UBS's results are subject to risks associated with changes in the relative values of currencies.

UBS is dependent upon its risk management and control processes to avoid or limit potential losses in its trading and counterparty credit businesses

Controlled risk-taking is a major part of the business of a financial services firm. Credit is an integral part of many of UBS's retail, corporate, wealth management and Investment Bank activities. This includes lending, underwriting and derivatives activities. Changes in interest rates, credit spreads, securities' prices, market volatility and liquidity, foreign exchange levels and other market fluctuations can adversely affect UBS's earnings. Some losses from risk-taking activities are inevitable, but to be successful over time, UBS must balance the risks it takes against the returns it generates. UBS must, therefore, diligently identify, assess, manage and control its risks, not only in normal market conditions but also as they might develop under more extreme (stressed) conditions, when concentrations of exposures can lead to severe losses.

As seen during the financial crisis of 2007–2009, UBS is not always able to prevent serious losses arising from extreme or sudden market events that are not anticipated by its risk measures and systems. Value-at-risk, a statistical measure for market risk, is derived from historical market data, and thus by definition could not have anticipated the losses suffered in the stressed conditions of the financial crisis. Moreover, stress loss and concentration controls and the dimensions in which UBS aggregates risk to identify potentially highly correlated exposures proved to be inadequate. Notwithstanding the steps it has taken to strengthen its risk management and control framework, UBS could suffer further losses in the future if, for example:

- it does not fully identify the risks in its portfolio, in particular risk concentrations and correlated risks;
- its assessment of the risks identified or its response to negative trends proves to be inadequate, insufficient or incorrect;
- markets move in ways that UBS does not expect – in terms of their speed, direction, severity or correlation – and UBS's ability to manage risks in the resultant environment is, therefore, affected;
- third parties to whom UBS has credit exposure or whose securities it holds for its own account are severely affected by events not anticipated by UBS's models, and accordingly UBS suffers defaults and impairments beyond the level implied by its risk assessment; or
- collateral or other security provided by UBS's counterparties proves inadequate to cover their obligations at the time of their default.

UBS also manages risk on behalf of its clients in its asset and wealth management businesses. UBS's performance in these activities could be harmed by the same factors. If clients suffer losses or the performance of their assets held with UBS is not in line with relevant benchmarks against which clients

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assess investment performance, UBS may suffer reduced fee income and a decline in assets under management, or withdrawal of mandates.

If UBS decides to support a fund or another investment that it sponsors in its asset or wealth management businesses (such as the property fund to which Wealth Management has exposure), it might, depending on the facts and circumstances, incur charges that could increase to material levels.

Investment positions, such as equity holdings made as a part of strategic initiatives and seed investments made at the inception of funds that UBS manages, may also be affected by market risk factors. These investments are often not liquid and generally are intended or required to be held beyond a normal trading horizon. They are subject to a distinct control framework. Deteriorations in the fair value of these positions would have a negative impact on UBS's earnings.

Valuations of certain positions rely on models; models have inherent limitations and may use inputs which have no observable source

Where possible, UBS marks its trading book assets and other positions at their quoted market price in an active market. Such price information may not be available for certain instruments and, therefore, UBS applies valuation techniques to measure such instruments. Valuation techniques use "market observable inputs" where available, derived from similar instruments in similar and active markets, from recent transaction prices for comparable items or from other observable market data. In the case of positions for which some or all of the inputs required for the valuation techniques are not observable or have limited observability, UBS uses valuation models with non-market observable inputs. There is no single market standard for valuation models of this type. Such models have inherent limitations; different assumptions and inputs would generate different results, and these differences could have a significant impact on UBS's financial results. UBS regularly reviews and updates its valuation models to incorporate all factors that market participants would consider in setting a price, including factoring in current market conditions. Judgment is an important component of this process. Changes in model inputs or in the models themselves, or failure to make the changes necessary to reflect evolving market conditions, could have a material adverse effect on UBS's financial results.

Liquidity and funding management are critical to UBS's ongoing performance

The viability of UBS's business depends upon the availability of funding sources, and its success depends upon UBS's ability to obtain funding at times, in amounts, for tenors and at rates that enable it to efficiently support its asset base in all market conditions. A substantial part of UBS's liquidity and funding requirements is met using short-term unsecured funding sources, including wholesale and retail deposits and the regular issuance of money market securities. The volume of UBS's funding sources has generally been stable, but could change in the future due to, among other things, general market disruptions or widening credit spreads, which could also influence the cost of funding. A change in the availability of short-term funding could occur quickly.

Reductions in UBS's credit ratings can increase its funding costs, in particular with regard to funding from wholesale unsecured sources, and can affect the availability of certain kinds of funding. In addition, as UBS experienced in connection with Moody's downgrading of its long-term rating in June 2012, ratings downgrades can require UBS to post additional collateral or make additional cash payments under master trading agreements relating to its derivatives businesses. UBS's credit ratings, together with its capital strength and reputation, also contribute to maintaining client and counterparty confidence and it is possible that ratings changes could influence the performance of some of UBS's businesses.

More stringent Basel III capital and liquidity requirements will likely lead to increased competition for both secured funding and deposits as a stable source of funding, and to higher funding costs. The addition of loss absorbing debt as a component of capital requirements and potential future requirements to maintain senior unsecured debt that could be written down in an insolvency or other resolution of UBS or a subsidiary may increase UBS's funding costs or limit the availability of funding of the types required.

UBS might be unable to identify or capture revenue or competitive opportunities, or retain and attract qualified employees

The financial services industry is characterised by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. UBS faces competition at the level of

local markets and individual business lines, and from global financial institutions that are comparable to UBS in their size and breadth. Barriers to entry in individual markets and pricing levels are being eroded by new technology. UBS expects these trends to continue and competition to increase. Its competitive strength and market position could be eroded if UBS is unable to identify market trends and developments, does not respond to them by devising and implementing adequate business strategies, adequately developing or updating its technology, particularly in trading businesses, or is unable to attract or retain the qualified people needed to carry them out.

The amount and structure of UBS's employee compensation are affected not only by UBS's business results but also by competitive factors and regulatory considerations. Constraints on the amount or structure of employee compensation, higher levels of deferral, performance conditions and other circumstances triggering the forfeiture of unvested awards may adversely affect UBS's ability to retain and attract key employees, and may in turn negatively affect UBS's business performance. UBS has made changes to the terms of compensation awards to reflect the demands of various stakeholders, including regulatory authorities and shareholders. These terms include the introduction of a deferred contingent capital plan with many of the features of the loss-absorbing capital that UBS has issued in the market but with a higher capital ratio write down trigger, increased average deferral periods for stock awards, and expanded forfeiture provisions for certain awards linked to business performance. These changes, while intended to better align the interests of UBS's staff with those of other stakeholders, increase the risk that key employees will be attracted by competitors and decide to leave UBS, and that UBS may be less successful than its competitors in attracting qualified employees. The loss of key staff and inability to attract qualified replacements, depending upon which and how many roles are affected, could seriously compromise UBS's ability to execute its strategy and to successfully improve its operating and control environment.

In a referendum in March 2013, the Swiss cantons and voters accepted an initiative to give shareholders of Swiss listed companies more influence over board and management compensation (the Minder Initiative). In November 2013, the Swiss Federal Council issued the final transitional ordinance implementing the constitutional amendments resulting from this initiative, which came into force on 1 January 2014. The ordinance requires public companies to specify in their articles of association a mechanism to permit a "say-on-pay" vote, setting out three requirements: (i) the vote on compensation must be held annually; (ii) the vote on compensation must be binding rather than advisory; and (iii) the vote on compensation must be held separately for the board of directors and members of the executive board. In addition, shareholders will need to determine the details of the "say-on-pay" vote in the articles of association, in particular the nature of the vote, timing aspects and the consequences of a "no" vote. Each company affected by the Minder Initiative must undertake a first binding vote on management compensation and remuneration of the board of directors at its 2015 annual general meeting.

The EU has adopted legislation that caps the amount of variable compensation in proportion to the amount of fixed compensation for employees of a bank active within the EU. This legislation will apply to employees of UBS in the EU. These and other similar initiatives may require UBS to make further changes to its compensation structure and may increase the risks described above.

UBS's financial results may be negatively affected by changes to accounting standards

UBS reports its results and financial position in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Changes to IFRS or interpretations thereof may cause UBS's future reported results and financial position to differ from current expectations. Such changes also may affect UBS's regulatory capital and ratios. UBS monitors potential accounting changes and when these are finalised by the IASB, UBS determines the potential impact and discloses significant future changes in its financial statements. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, some of which could be expected to impact UBS's reported results, financial position and regulatory capital in the future.

UBS's financial results may be negatively affected by changes to assumptions supporting the value of its goodwill

The goodwill UBS has recognised on the respective balance sheets of its operating segments is tested for impairment at least annually. UBS's impairment test in respect of the assets recognised as of 31 December 2013 indicated that the value of its goodwill is not impaired. The impairment test is based on assumptions regarding estimated earnings, discount rates and long-term growth rates impacting the

recoverable amount of each segment and on estimates of the carrying amounts of the segments to which the goodwill relates. If the estimated earnings and other assumptions in future periods deviate from the current outlook, the value of UBS's goodwill may become impaired in the future, giving rise to losses in the income statement. In the third quarter of 2012, for example, the recognition by the Investment Bank of a full impairment of goodwill and of an impairment of other non-financial assets resulted in a charge of almost CHF 3.1 billion against UBS's operating profit before tax.

The effect of taxes on UBS's financial results is significantly influenced by reassessments of its deferred tax assets

The deferred tax assets UBS has recognised on its balance sheet as of 31 December 2013 in respect of prior years' tax losses reflect the probable recoverable level based on future taxable profit as informed by UBS's business plans. If the business plan earnings and assumptions in future periods substantially deviate from current forecasts, the amount of recognised deferred tax assets may need to be adjusted in the future. These adjustments may include write-downs of deferred tax assets through the income statement.

UBS's effective tax rate is highly sensitive both to UBS's performance and to the accuracy of new business plan forecasts. UBS's results in recent periods have demonstrated that changes in the recognition of deferred tax assets can have a very significant effect on its reported results. If the Group's performance is expected to improve, particularly in the US, UK or Switzerland, UBS could potentially recognise additional deferred tax assets as a result of that assessment. The effect of doing so would be to significantly reduce the Group's effective tax rate in years in which additional deferred tax assets are recognised. Conversely, if UBS's performance in those countries is expected to produce diminished taxable profit in future years, UBS may be required to write-down all or a portion of the currently recognised deferred tax assets through the income statement. This would have the effect of increasing the Group's effective tax rate in the year in which any write-downs are taken.

In 2014, UBS expects the tax rate to be in the region of 20% to 25%. Consistent with past practice, UBS expects to reassess the overall level of deferred tax assets in the second half of 2014 based on an evaluation of future profitability as informed by updated business plan forecasts. The full year effective tax rate could change significantly on the basis of this reassessment. UBS's effective tax rate is also sensitive to any future reductions in statutory tax rates, particularly in the US and Switzerland. Reductions in the statutory tax rate would cause the expected future tax benefit from items such as tax loss carry-forwards in the affected locations to diminish in value. This in turn would cause a write-down of the associated deferred tax assets.

In addition, statutory and regulatory changes, as well as changes to the way in which courts and tax authorities interpret tax laws could cause the amount of taxes ultimately paid by UBS to materially differ from the amount accrued. This is a potential risk particularly as UBS considers reorganisations of its legal entity structures in the US, UK and Switzerland in response to regulatory changes prompted by the financial crisis. The tax authorities in these countries may prevent the transfer of tax losses incurred in one legal entity to newly organised or reorganised subsidiaries or affiliates that are expected to carry on businesses formerly conducted by the transferor. Were this to occur in situations where there were also limited planning opportunities to utilise the tax losses in the originating entity, the DTAs associated with such tax losses could be written down through the income statement. Separately, in 2011 the UK government introduced a balance sheet based levy payable by banks operating or resident in the UK. An expense for the year of CHF 128 million has been recognised in operating expenses (within pre-tax profit) in the fourth quarter of 2013. The Group's bank levy expense for future years will depend on both the rate of the levy and the Group's taxable UK liabilities at each year end; changes to either factor could increase the cost. This expense will likely increase if, for example, UBS changes its booking practices so as to book more liabilities into its UK bank subsidiary, UBS Limited. UBS expects that the annual bank levy expense will continue to be recognised for IFRS purposes as a cost arising in the final quarter of each financial year, rather than being accrued throughout the year, as it is charged by reference to the year-end balance sheet position.

TERMS AND CONDITIONS OF THE TIER 2 SUBORDINATED NOTES DUE [•]

The terms and conditions of the Tier 2 Subordinated Notes due [•] issued by UBS AG are as follows:

1. DEFINITIONS

"**Additional Amounts**" has the meaning assigned to such term in Condition 8 (*Taxation*).

"**Alignment Event**" has the meaning assigned to such term in Condition 5 (*Redemption and Purchase*).

"**Amendment Effective Date**" has the meaning assigned to such term in Condition 11 (*Amendments*).

"**Amendment Notice**" has the meaning assigned to such term in Condition 11 (*Amendments*).

"**Auditor**" means the accounting firm (i) appointed by the Board of Directors of UBS AG or the shareholders of UBS AG, as the case may be, to provide, among other things, audit and/or review opinions on UBS AG's financial statements, and (ii) approved by the FINMA in accordance with the Financial Market Supervisory Act (*Finanzmarktaufsichtsgesetz*) of 22 June 2007, as amended from time to time.

"**Balance Sheet Date**" means (i) with respect to any Ordinary Publication Date, the cut-off date for the measurement of the CET1 Ratio in the Quarterly Financial Accounts published on such Ordinary Publication Date, and (ii) with respect to any Extraordinary Publication Date, the cut-off date for the Reviewed Interim Measurement published upon the instruction of the FINMA on such Extraordinary Publication Date.

"**Bankruptcy Event**" means any of the following events with respect to UBS AG: (i) the adjudication of bankruptcy (*Konkurseröffnung*) pursuant to article 171, 189 or 191 of the DEBA, (ii) the granting of a provisional or definitive stay of execution (*provisorische oder definitive Nachlassstundung*) pursuant to article 293 et seq. of the DEBA, (iii) the ordering of restructuring proceedings (*Sanierungsverfahren*) pursuant to articles 28 to 32 of the FBA and/or (iv) the ordering of liquidation proceedings (*Liquidation*) pursuant to articles 33 to 37g of the FBA; *provided, however*, that none of the following shall constitute a Bankruptcy Event: (x) mere debt collection proceedings (*Betriebsverfahren*) pursuant to article 38 et seq. of the DEBA, (y) proceedings in connection with a freezing order (*Arrestverfahren*) pursuant to article 271 et seq. of the DEBA, and/or (z) the institution of protective measures (*Schutzmassnahmen*) pursuant to article 26 of the FBA, including, in the case of each of clauses (x), (y) and (z), any steps taken under or in connection therewith.

"**BIS Regulations**" means, at any time, the capital adequacy standards and guidelines promulgated by the Basel Committee on Banking Supervision, as implemented by the FINMA in Switzerland at such time.

"**BIS Risk Weighted Assets**" means, as of any Balance Sheet Date, the aggregate amount, in Swiss francs, of risk-weighted assets of the Group as of such Balance Sheet Date, as determined by UBS AG pursuant to the BIS Regulations applicable to UBS AG as of such Balance Sheet Date, and as (i) disclosed in the Quarterly Financial Accounts published on the relevant Ordinary Publication Date or (ii) may be disclosed as a component of the Reviewed Interim Measurement published upon the instruction of the FINMA on the relevant Extraordinary Publication Date, as applicable. For the avoidance of doubt, the term "**risk-weighted assets**" as used in this definition shall have the meaning assigned to such term in the BIS Regulations in effect as of the relevant Balance Sheet Date.

"**BIS Tier 1 Capital**" means, as of any Balance Sheet Date, the aggregate amount, in Swiss francs, of items that constitute tier 1 capital of the Group as of such Balance Sheet Date, less any deductions from tier 1 capital required to be made, in each case, as determined by UBS AG pursuant to the BIS Regulations applicable to UBS AG as of such Balance Sheet Date. For the avoidance of doubt, the term "**tier 1 capital**" as used in this definition shall have the meaning assigned to such term in the BIS Regulations in effect as of the relevant Balance Sheet Date.

"**Business Day**" means a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Zurich.

"**Call Date**" means [•] 2019.

"**Capital Adequacy Ordinance**" means the Ordinance concerning Capital Adequacy and Risk Diversification for Banks and Securities Dealers, which entered into force on 1 January 2013, and as amended from time to time.

"**CET1 Capital**" means, as of any Balance Sheet Date, the aggregate amount, in Swiss francs, of items that constitute common equity tier 1 capital of the Group as of such Balance Sheet Date, less any deductions from common equity tier 1 capital required to be made, in each case as determined by UBS AG pursuant to the BIS Regulations applicable to UBS AG as of such Balance Sheet Date, and as (i) disclosed in the Quarterly Financial Accounts published on the relevant Ordinary Publication Date or (ii) may be disclosed as a component of the Reviewed Interim Measurement published upon the instruction of the FINMA on the relevant Extraordinary Publication Date, as applicable. For the avoidance of doubt, the term "**common equity tier 1 capital**" as used in this definition shall have the meaning assigned to such term in the BIS Regulations in effect as of the relevant Balance Sheet Date.

"**CET1 Ratio**" means, as of any Balance Sheet Date, the CET1 Capital as of such Balance Sheet Date, divided by the BIS Risk Weighted Assets as of such Balance Sheet Date, expressed as a percentage, such ratio (or the components thereof) as determined by UBS AG, and (i) as disclosed in the Quarterly Financial Accounts published on the relevant Ordinary Publication Date or (ii) constituting (or as disclosed in) the Reviewed Interim Measurement published upon the instruction of the FINMA on the relevant Extraordinary Publication Date, as applicable.

"**Change in Progressive Capital Component Requirement**" has the meaning assigned to such term in Condition 5 (*Redemption and Purchase*).

"**Contingent Write-down**" means the events described in clauses (i) through (iv) of clause (d) of Condition 6 (*Contingent Write-down*).

"**Core Capital**" means, at any time, any item that constitutes common equity tier 1 capital of the Group pursuant to the BIS Regulations applicable to UBS AG as of such time.

"**Core Capital Instrument**" means, at any time, any security or other instrument issued by any member of the Group that qualifies as Core Capital at such time.

"**DEBA**" means the Swiss Federal Debt Enforcement and Bankruptcy Act of 11 April 1889, as amended from time to time.

"**Early Redemption Date**" has the meaning assigned to such term in Condition 5 (*Redemption and Purchase*).

"**Early Redemption Notice**" has the meaning assigned to such term in Condition 5 (*Redemption and Purchase*).

"**EU Savings Tax Directive**" means the European Council Directive 2003/48/EC of 3 June 2003, on taxation of savings income.

"**Event of Default**" has the meaning assigned to such term in Condition 10 (*Events of Default*).

"**Extraordinary Publication Date**" means the Business Day on which a Reviewed Interim Measurement is published upon the instruction of the FINMA, after the FINMA has determined that the conditions for issuing a Trigger Event Write-down Notice in accordance with Condition 6 (*Contingent Write-down*) have been met.

"**Extraordinary Trigger Event Notice Date**" has the meaning assigned to such term in Condition 6 (*Contingent Write-down*).

"**FBA**" means the Swiss Federal Act on Banks and Savings Institutions of 8 November 1934, as amended from time to time.

"**FINMA**" means the Swiss Financial Market Supervisory Authority FINMA or any successor thereof.

"**Former Residence**" has the meaning assigned to such term in Condition 13 (*Substitution*).

"**Group**" means, at any time, UBS AG, its consolidated subsidiaries and all other entities that are included in UBS AG's consolidated adequacy reports prepared pursuant to the capital adequacy laws and regulations to which it is subject at such time.

"**High-Trigger Amount**" means, as of any Publication Date, the sum of (i) the maximum portion of the aggregate principal amount, in Swiss francs, of all High-Trigger Contingent Capital, if any, outstanding on the relevant Balance Sheet Date that could be converted into equity or written down if a High-Trigger Write-down/Conversion Notice were delivered in accordance with the terms thereof, and (ii) the maximum portion of the aggregate principal amount, in Swiss francs, of all High-Trigger Contingent Capital, if any, issued after the relevant Balance Sheet Date, but prior to such Publication Date, that could be converted into equity or written down if a High-Trigger Write-down/Conversion Notice were delivered in accordance with the terms thereof, in the case of each of clauses (i) and (ii), as determined by UBS AG. For purposes of clause (ii) of this definition and, in the case of an Extraordinary Publication Date, clause (i) of this definition, the aggregate principal amount of any High-Trigger Contingent Capital that is not denominated in Swiss francs shall be converted into Swiss francs at the applicable prevailing exchange rate on the last Business Day preceding the relevant Publication Date, as determined by UBS AG. In the case of an Ordinary Publication Date, for purposes of clause (i) of this definition, the aggregate principal amount of any High-Trigger Contingent Capital that is not denominated in Swiss francs shall be converted into Swiss francs at the applicable exchange rate used for such purposes in the relevant Quarterly Financial Accounts.

"**High-Trigger Contingent Capital**" means any capital instrument issued by any member of the Group that is required pursuant to its terms to be either converted into equity or fully or partially written down when the CET1 Ratio (or similar measure described in the terms and conditions thereof) falls below a threshold that is higher than the Write-down Threshold (with respect to the relevant High-Trigger Contingent Capital, its "**High-Trigger Threshold**"), including, but not limited to, capital instruments that, pursuant to National Regulations, qualify as buffer capital (*Eigenmittelpuffer*) under the Capital Adequacy Ordinance.

"**High-Trigger Threshold**" has the meaning assigned to such term in the definition of the term "**High-Trigger Contingent Capital**".

"**High-Trigger Write-down/Conversion Date**" has the meaning assigned to such term in the definition of the term "High-Trigger Write-down/Conversion Notice".

"**High-Trigger Write-down/Conversion Notice**" means a notice delivered pursuant to the terms of any High-Trigger Contingent Capital, which notifies the holders thereof that the CET1 Ratio (or similar measure described in the terms and conditions of such High-Trigger Contingent Capital) has fallen below its High-Trigger Threshold and, consequently, such High-Trigger Contingent Capital will be converted into equity or fully or partially written down, as applicable, as of a particular date (such date, the "**High-Trigger Write-down/Conversion Date**").

"**Holder**" means, with respect to any Note, the person or persons holding such Note in a securities account (*Effektenkonto*) that is in its or their name, or, in the case of intermediaries (*Verwahrungsstellen*), the intermediary or intermediaries holding the Notes for its or their own account in a securities account (*Effektenkonto*) that is in its or their name.

"**Initial Interest Rate**" means [\bullet] per cent. per annum.

"**Interest Payment Date**" has the meaning assigned to such term in Condition 4 (*Interest*).

"**Interest Rate**" means (i) for the period from (and including) the Issue Date to (but excluding) the Call Date, the Initial Interest Rate and (ii) for the period from (and including) the Call Date to (but excluding) the Maturity Date, the Subsequent Interest Rate.

"**Intermediary**" has the meaning assigned to such term in Condition 2 (*Amount and Denomination; Form and Transfer*).

"**Intermediated Securities**" has the meaning assigned to such term in Condition 2 (*Amount and Denomination; Form and Transfer*).

"**Issue Date**" means [•] 2014.

"**Issuer**" means UBS AG in its capacity as issuer of the Notes.

"**Junior Obligations**" means (i) all unsecured, subordinated, direct or indirect, obligations of UBS AG without a determined maturity or repayment date, (ii) all other unsecured, subordinated, direct or indirect obligations of UBS AG that are expressed to rank junior to the Issuer's obligations under the Notes and (iii) all classes of share capital of UBS AG.

"**Maturity Date**" means [•].

["**Mid Market Swap Rate**" means the mid market Euro swap rate Libor basis having a five-year maturity appearing on Bloomberg page "EUSA5" (or such other page as may replace such page on Bloomberg, or such other page as may be nominated by the person providing or sponsoring the information appearing on such page for purposes of displaying comparable rates) at 11:00 a.m. (Brussels time) on the date falling two Payment Business Days prior to the Call Date, as determined by the Issuer. If such swap rate does not appear on such page (or such other page or service), the Mid Market Swap Rate shall instead be determined by the Issuer on the basis of (i) quotations provided by the principal office of each of four major banks in the Euro swap rate market of the rates at which swaps in Euro are offered by it at approximately 11.00 a.m. (Brussels time) on the date falling two Payment Business Days prior to the Call Date to participants in the Euro swap rate market for a five-year period and (ii) the arithmetic mean expressed as a percentage and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards) of such quotations.]

"**Minimum Progressive Capital Component Requirement**" means, at any time, the minimum aggregate amount of capital that is required to be held by UBS AG as Progressive Capital Component pursuant to the National Regulations at such time.

"**National Regulations**" means, at any time, (i) the Swiss national banking and capital adequacy laws, and (ii) the capital adequacy regulations promulgated by the Swiss Federal Council (*Bundesrat*) and FINMA and the interpretation thereof by any competent Swiss authority, in the case of each of clauses (i) and (ii), directly applicable to UBS AG and/or the Group at such time.

"**New Residence**" has the meaning assigned to such term in Condition 13 (*Substitution*).

"**Notes**" means the €[•] Tier 2 Subordinated Notes due [•] issued by the Issuer on the Issue Date.

"**Ordinary Publication Date**" means each Business Day on which Quarterly Financial Accounts are published.

"**Ordinary Trigger Event Notice Date**" has the meaning assigned to such term in Condition 6 (*Contingent Write-down*).

"**Parity Obligations**" means (i) all unsecured, subordinated, direct or indirect, dated obligations of UBS AG and (ii) all other unsecured, subordinated, direct or indirect obligations of UBS AG that are expressed to rank *pari passu* with the Issuer's obligations under the Notes.

"**Paying Agent**" has the meaning assigned to such term in Condition 7 (*Payments*).

"**Payment Business Day**" means any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in London, United Kingdom or, if the

Securities are held in definitive form, in the case of payment by transfer to a euro account (or other account to which euro may be credited or transferred), any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in London, United Kingdom; and in the case of surrender (or, in the case of part payment only, endorsement) of any Securities in definitive form, any day on which banks are open for general business (including dealings in foreign currencies) in the place in which the Securities in definitive form are surrendered (or, as the case may be, endorsed).

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November, 2007.

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro.

"**Permitted Transactions**" means:

- (i) repurchases, redemptions or other acquisitions of any Core Capital Instruments in connection with (x) any employment contract, benefit plan or similar arrangement with, or for the benefit of, any employees, officers, directors or consultants of any member of the Group, (y) a dividend reinvestment or shareholder share purchase plan or (z) the issuance of any Core Capital Instruments (or securities convertible into, or exercisable for, Core Capital Instruments) as consideration for an acquisition consummated by any member of the Group;
- (ii) market-making in Core Capital Instruments as part of the securities business of any member of the Group;
- (iii) purchases of fractional interests in any Core Capital Instruments pursuant to the conversion or exchange provisions of (x) such Core Capital Instruments or (y) any security convertible into, or exercisable for, Core Capital Instruments;
- (iv) redemptions or repurchases of Core Capital Instruments pursuant to any shareholders' rights plan; and
- (v) other redemptions or repurchases of Core Capital Instruments in an aggregate amount not exceeding CHF 250,000,000 during the one-month period ending on the date immediately preceding the relevant Publication Date.

"**Progressive Capital Component**" means, at any time, any item that, pursuant to National Regulations at such time, qualifies as progressive capital component (*progressive Komponente*) under the Capital Adequacy Ordinance.

"**Public Sector**" means the government of, or a governmental agency or the central bank in, UBS AG's country of incorporation.

"**Publication Date**" means an Ordinary Publication Date or an Extraordinary Publication Date, as the case may be.

"**Quarterly Financial Accounts**" means the financial statements of the Group (including the notes thereto) in respect of a calendar quarter, which have been reviewed by the Auditor in accordance with the International Standards on Auditing and are contained in a customary financial report published by UBS AG; *provided, however*, that, if the financial statements of the Group in respect of the last quarter of any year are not so reviewed, the term "Quarterly Financial Accounts" in respect of such quarter shall mean instead the annual financial statements of the Group (including the notes thereto) in respect of such year, which have been audited by the Auditor in accordance with the International Standards on Auditing and are published in the annual report of UBS AG for such year.

"**Reduced Minimum Progressive Capital Component Requirement**" has the meaning assigned to such term in Condition 5 (*Redemption and Purchase*).

"**Reduction Confirmation**" has the meaning assigned to such term in Condition 5 (*Redemption and Purchase*).

"**Regulatory Event**" has the meaning assigned to such term in Condition 5 (*Redemption and Purchase*).

"**Relevant Date**" means, with respect to any payment, (i) the date on which such payment first becomes due under these Terms and Conditions (the "**Scheduled Due Date**"), or (ii) if the full amount of the money payable on the Scheduled Due Date has not been received by the Intermediary on or before the Scheduled Due Date, the date on which the full amount of the money due on the Scheduled Due Date has been received by the Intermediary.

"**Relevant Swiss Issuer**" means, at any time, any bank, or any member of a banking group (including the Group), that is required to hold a minimum aggregate amount of Progressive Capital Component pursuant to the National Regulations at such time.

"**Reviewed Interim Measurement**" means an interim measurement of the CET1 Ratio, with respect to which the Auditor has performed procedures in accordance with the International Standard on Related Services (and relevant Swiss standards and practices) applicable to agreed-upon procedures engagements.

"**Scheduled Due Date**" has the meaning assigned to such in the definition of the term "Relevant Date".

"**Senior Obligations**" means all obligations of UBS AG that do not constitute either Junior Obligations or Parity Obligations.

"**Subsequent Interest Rate**" means the rate per annum equal to the sum of [•] per cent. and the Mid Market Swap Rate.

"**Substitute Issuer**" has the meaning assigned to such term in Condition 13 (*Substitution*).

"**Substitution Documents**" has the meaning assigned to such term in Condition 13 (*Substitution*).

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

"**Swiss francs**" or "**CHF**" means the lawful currency of Switzerland.

"**Tax Event**" has the meaning assigned to such term in Condition 5 (*Redemption and Purchase*).

"**Tax Jurisdiction**" means Switzerland.

"**Taxes**" has the meaning assigned to such term in Condition 8 (*Taxation*).

"**Tier 2 Capital**" has, at any time, the meaning ascribed to it under the National Regulations at such time.

"**Trigger Breach Determination Date**" has the meaning assigned to such term in Condition 6 (*Contingent Write-down*).

"**Trigger CET1 Ratio**" means, as of any Publication Date, (i) the sum of (x) the CET1 Capital as of the relevant Balance Sheet Date and (y) the High-Trigger Amount as of such Publication Date, divided by (ii) the BIS Risk Weighted Assets as of the relevant Balance Sheet Date, expressed as a percentage.

"**Trigger Event**" has the meaning assigned to such term in Condition 6 (*Contingent Write-down*).

"**Trigger Event Notice Date**" means an Ordinary Trigger Event Notice Date or an Extraordinary Trigger Event Notice Date, as the case may be.

"**Trigger Event Write-down Date**" has the meaning assigned to such term in the definition of the term "**Trigger Event Write-down Notice**".

"**Trigger Event Write-down Notice**" means, with respect to any Publication Date, a notice (i) stating that (x) the Trigger CET1 Ratio as of such Publication Date is less than the Write-down Threshold, and (y) a Contingent Write-down will take place and (ii) specifying the date on which the Contingent Write-down will take place, which date shall, subject to postponement pursuant to clause (b)(ii) of Condition 6 (*Contingent Write-down*), be no later than 10 Business Days after the date of such notice (the "**Trigger Event Write-down Date**").

"**Viability Event**" has the meaning assigned to such term in Condition 6 (*Contingent Write-down*).

"**Viability Event Write-down Date**" has the meaning assigned to such term in Condition 6 (*Contingent Write-down*).

"**Viability Event Write-down Notice**" has the meaning assigned to such term in Condition 6 (*Contingent Write-down*).

"**Write-down Date**" means, with respect to any Contingent Write-down, the Trigger Event Write-down Date or Viability Event Write-down Date, as applicable.

"**Write-down Notice**" means, with respect to any Contingent Write-down, the relevant Trigger Event Write-down Notice or Viability Event Write-down Notice, as applicable.

"**Write-down Notice Date**" means, with respect to any Contingent Write-down, the date of the relevant Write-down Notice.

"**Write-down Threshold**" means five per cent.

2. **AMOUNT AND DENOMINATION; FORM AND TRANSFER**

(a) *Amount and Denomination*

The initial aggregate principal amount of the Notes will be [€•]. The Notes will be issued to Holders in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes may only be held and transferred in minimum denominations of €100,000 and integral multiples of €1,000 in excess thereof.

(b) *Uncertificated Securities*

The Notes are issued in uncertificated form as uncertificated securities (*Wertrechte*) in accordance with article 973c of the Swiss Code. The uncertificated securities (*Wertrechte*) will be created by the Issuer by means of a registration in its register of uncertificated securities (*Wertrechtbuch*). Such uncertificated securities will then be entered into the main register (*Hauptregister*) of SIX SIS Ltd or any other intermediary in Switzerland recognised for such purposes by SIX Swiss Exchange Ltd (SIX SIS Ltd or any such other intermediary, the "**Intermediary**"). Once the uncertificated securities are registered in the main register (*Hauptregister*) of the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Notes will constitute intermediated securities (*Bucheffekten*) within the meaning of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*) ("**Intermediated Securities**").

So long as the Notes are Intermediated Securities, the Notes may only be transferred by the entry of the transferred Notes in a securities account of the transferee.

The records of the Intermediary will determine the number of Notes held through each participant in the Intermediary.

Neither the Issuer nor any Holder nor any other person shall at any time have the right to effect or demand the conversion of the uncertificated securities (*Wertrechte*) into, or the delivery of, a global note (*Globalurkunde*) or definitive Notes (*Wertpapiere*).

3. STATUS AND SUBORDINATION

(a) *Status*

The Notes constitute direct, unsecured and subordinated obligations of the Issuer and rank *pari passu* and without any preference among themselves. The rights and claims of the Holders against the Issuer under the Notes are subordinated as described in Condition 3(b).

(b) *Subordination*

In the event of (i) a Bankruptcy Event or (ii) an order being made, or an effective resolution being passed, for the liquidation or winding-up of UBS AG (except, in any such case, a solvent liquidation or winding-up of UBS AG solely for the purposes of a reorganisation, reconstruction or amalgamation of UBS AG or the substitution in place of UBS AG of a successor in business to UBS AG, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) (except in the case of any such substitution pursuant to Condition 13 (*Substitution*)) have previously been approved by a valid resolution of the Holders and (y) do not provide that the Notes shall become redeemable in accordance with these Terms and Conditions), the rights and claims of the Holders against the Issuer in respect of or arising under (including, without limitation, any damages awarded for breach of any obligation under) the Notes shall, subject to any obligations that are mandatorily preferred by law, rank (A) junior to the rights and claims of all holders of Senior Obligations, (B) *pari passu* with the rights and claims of holders of Parity Obligations and (C) senior to the rights and claims of holders of Junior Obligations.

(c) *Claims subject to a Contingent Write-down*

Any claim of any Holder in respect of or arising under the Notes (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Issuer subject to enforcement by any Holder pursuant to Condition 10 (*Events of Default*) or in relation to the occurrence of any other Event of Default) shall be subject to, and superseded by, clause (d) of Condition 6 (*Contingent Write-down*), irrespective of whether the relevant Write-down Notice has been given prior to or after the occurrence of an Event of Default or any other event.

4. INTEREST

(a) *Interest*

Subject to Condition 6 (*Contingent Write-down*),

- (i) the Notes shall bear interest on their principal amount at the applicable Interest Rate from and including the Issue Date to (but excluding) (A) if the Notes are early redeemed pursuant to clause (b), (c), (d) or (e) of Condition 5 (*Redemption and Purchase*), the applicable Early Redemption Date, or (B) otherwise, the Maturity Date; *provided, however*, that if payment with respect to any Note is improperly withheld or refused on such Early Redemption Date or the Maturity Date, as the case may be, interest shall continue to accrue on the principal amount of such Note (both before and after judgment) at the applicable Interest Rate to (but excluding) the Relevant Date; and
- (ii) interest on the Notes shall be payable annually in arrear on [•] of each year (each, an "**Interest Payment Date**"), commencing on [•].

Interest on the Notes shall be computed on the basis of a 360-day year comprised of twelve 30-day months.

All euro amounts resulting from any calculation required to be made pursuant to this Condition 4 shall be rounded to the nearest cent (with one-half cent being rounded upwards).

(b) *Publication of Interest Amounts*

The Issuer shall cause each interest amount payable on the Early Redemption Date (if the Notes are to be early redeemed pursuant to Condition 5 (*Redemption and Purchase*)) to be notified to the Holders in accordance with Condition 12 (*Notices*) no later than two Payment Business Days prior to the Early Redemption Date.

5. **REDEMPTION AND PURCHASE**

(a) *Final Redemption*

Unless previously redeemed or purchased and cancelled and subject to Condition 6 (*Contingent Write-down*), the Notes shall be redeemed on the Maturity Date at their aggregate principal amount, together with accrued and unpaid interest thereon to (but excluding) the Maturity Date, if any.

(b) *Early Redemption at the Option of the Issuer*

Subject to clauses (f) and (g) of this Condition 5, the Issuer may elect, in its sole discretion, to redeem the Notes, in whole but not in part, on the Call Date at their aggregate principal amount, together with accrued and unpaid interest thereon to (but excluding) the Call Date, if any.

(c) *Early Redemption due to a Tax Event*

(i) Upon the occurrence of a Tax Event at any time after the Issue Date and subject to clauses (f) and (g) of this Condition 5, the Issuer may elect, in its sole discretion, to redeem the Notes, in whole but not in part, on the relevant Early Redemption Date at their aggregate principal amount, together with accrued and unpaid interest thereon to (but excluding) such Early Redemption Date, if any.

(ii) A "**Tax Event**" shall be deemed to have occurred if the Issuer in making any payments on the Notes (A) has paid, or will or would on the next payment date be required to pay, Additional Amounts, or (B) has paid, or will or would be required to pay, any additional Tax in respect of the Notes, in the case of each of subclauses (A) and (B) of this clause (ii), under the laws or regulations of a Tax Jurisdiction or any political subdivision thereof or any authority of or in a Tax Jurisdiction or any political subdivision thereof having the power to impose, levy, collect, withhold or assess Taxes, including, without limitation, any treaty to which a Tax Jurisdiction is a party, or any generally published application or interpretation of such laws (including, without limitation, a decision of any court or tribunal, any generally published application or interpretation of such laws by any relevant tax authority or any generally published pronouncement by any relevant tax authority), and the Issuer cannot avoid the foregoing by taking measures reasonably available to it.

(d) *Early Redemption due to a Regulatory Event*

(i) Upon the occurrence of a Regulatory Event at any time after the Issue Date and subject to clause (f) of this Condition 5, the Issuer may elect, in its sole discretion, to redeem the Notes, in whole but not in part, on the relevant Early Redemption Date at their aggregate principal amount, together with accrued and unpaid interest thereon to (but excluding) such Early Redemption Date, if any.

(ii) A "**Regulatory Event**" shall be deemed to have occurred if the FINMA has notified UBS AG in writing that the Notes do not, or will cease to, fully qualify as either Tier 2 Capital or Progressive Capital Component (or both); *provided, however*, that, without prejudice to the Issuer's right to redeem the Notes pursuant to clause (b), (c) or (e) of this Condition 5, a Regulatory Event shall not be deemed to have occurred for reasons of partial non-recognition of the Notes as Tier 2 Capital in the five-year period ending on the Maturity Date.

(e) *Early Redemption upon a Change in Progressive Capital Component Requirement or an Alignment Event*

(i) Upon the occurrence of a Change in Progressive Capital Component Requirement or an Alignment Event and subject to clauses (f) and (g) of this Condition 5, the Issuer may, within 60 days after the date on which such Change in Progressive Capital Component Requirement or Alignment Event, as the case may be, occurred, elect, in its sole discretion, to redeem the Notes, in whole but not in part, on the relevant Early Redemption Date at 101 per cent. of their aggregate principal amount, together with accrued and unpaid interest thereon to (but excluding) such Early Redemption Date, if any; *provided, however*, that, in the case of an Alignment Event, the Issuer may not exercise its early redemption right under this clause (e) if it has given the Holders an Amendment Notice pursuant to Condition 11 (*Amendments*).

(ii) A "**Change in Progressive Capital Component Requirement**" shall be deemed to have occurred if (A) at any time on or after the Issue Date, the Minimum Progressive Capital Component Requirement in effect at such time is reduced as a direct consequence of a change in the National Regulations (the Minimum Progressive Capital Component Requirement as so reduced, the "**Reduced Minimum Progressive Capital Component Requirement**"), (B) UBS AG has received written confirmation from the FINMA that the Minimum Progressive Capital Component Requirement has been so reduced (such confirmation, a "**Reduction Confirmation**"), and (C) as a direct consequence of such reduction, the aggregate amount of capital held by the Group as of the first Balance Sheet Date immediately following receipt of the relevant Reduction Confirmation that qualifies as Progressive Capital Component as of such Balance Sheet Date exceeds the relevant Reduced Minimum Progressive Capital Component Requirement.

(iii) An "**Alignment Event**" shall be deemed to have occurred if, as the result of any change in the National Regulations at any time after the Issue Date, any Relevant Swiss Issuer would be permitted to issue, or has issued, a capital instrument that (A) qualifies as Tier 2 Capital and Progressive Capital Component, and (B) has terms and conditions that (x) include a write-down feature, and (y) contain one or more provisions that are, in the reasonable opinion of the Issuer, different in any material respect from those in these Terms and Conditions, which provisions, if they had been included in these Terms and Conditions, would have prevented the Notes from qualifying as Tier 2 Capital and Progressive Capital Component immediately prior to such change in the National Regulations.

(f) *Early Redemption Notice*

If the Issuer elects to redeem the Notes pursuant to clause (b), (c), (d) or (e) of this Condition 5, the Issuer shall give the Holders not less than 30 and not more than 60 days' prior notice in accordance with Condition 12 (*Notices*) (an "**Early Redemption Notice**"), which notice shall be irrevocable and specify the date on which the Issuer shall redeem the Notes pursuant to such clause of this Condition 5 (such specified date, the "**Early Redemption Date**").

(g) *Conditions for Early Redemption*

The Issuer may only redeem the Notes pursuant to clause (b), (c) or (e) of this Condition 5 on the relevant Early Redemption Date if (i) the FINMA has approved such redemption in writing on or prior to such Early Redemption Date and (ii) no Viability Event has occurred prior to such Early Redemption Date.

(h) *Purchases*

UBS AG or any other member of the Group or any of their respective affiliates may at any time purchase Notes at any price in the open market or otherwise, *provided* that (i) such purchase complies with any limits or conditions to which any member of the Group is subject under applicable banking laws and regulations at the time of such purchase, (ii) the FINMA has approved such purchase in writing on or prior to the date of such purchase (such approval not being required for purchases made in connection with stabilisation measures in compliance with applicable law or in connection with any market making in the Notes) and (iii) no Viability Event has occurred prior to the date of such purchase. Any Notes so purchased may, at the option of the Issuer, be held, reissued, resold or cancelled.

(i) *Cancellation*

All Notes redeemed in accordance with this Condition 5 shall be cancelled and may not be reissued or resold.

(j) *Early Redemption of Other Instruments*

For the avoidance of doubt, it is understood that, if, upon the occurrence of a Tax Event, Regulatory Event, Change in Progressive Capital Component Requirement or Alignment Event, the Issuer does not elect to early redeem the Notes pursuant to this Condition 5, nothing in this Condition 5 shall prohibit the Issuer from redeeming any other instruments issued by any member of the Group pursuant to the terms thereof.

6. **CONTINGENT WRITE-DOWN**

(a) *Trigger Event*

- (i) Upon the occurrence of a Trigger Event, a Contingent Write-down shall occur on the Trigger Event Write-down Date in accordance with clause (d) of this Condition 6.
- (ii) A "**Trigger Event**" shall be deemed to have occurred if the Issuer gives the Holders a Trigger Event Write-down Notice in accordance with clause (b) of this Condition 6.

(b) *Trigger Event Write-down Notice*

- (i) If, with respect to any Publication Date,
 - (A) the Trigger CET1 Ratio as of such Publication Date is less than the Write-down Threshold; and
 - (B) UBS AG has not (x) paid, or proposed to pay, any distribution in cash or in kind (other than in the form of Core Capital Instruments) on any Core Capital Instruments or (y) repurchased, redeemed or retired for any consideration any Core Capital Instruments, in the case of each of subclauses (x) and (y) of this clause (B), during the one-month period ended on the date immediately preceding such Publication Date, except pursuant to the conversion of a security into, or the exchange of a security for, any Core Capital Instruments, or as a Permitted Transaction,

the Issuer shall, subject to clauses (b)(ii) and (b)(iii) of this Condition 6, give a Trigger Event Write-down Notice to the Holders (x) if such Publication Date is an Ordinary Publication Date, within five Business Days of such Publication Date (such fifth Business Day, the "**Trigger Breach Determination Date**", and the date of such notice, the "**Ordinary Trigger Event Notice Date**"), and (y) if

such Publication Date is an Extraordinary Publication Date, on such Publication Date (the "**Extraordinary Trigger Event Notice Date**"), in each case in accordance with Condition 12 (*Notices*).

- (ii) If the Issuer is required to give a Trigger Event Write-down Notice pursuant to clause (b)(i) of this Condition 6, and on the relevant Publication Date any High-Trigger Contingent Capital is outstanding with respect to which either (x) no High-Trigger Write-down/Conversion Notice has been given prior to the Trigger Event Notice Date or (y) a High-Trigger Write-down/Conversion Notice has been given prior to the Trigger Event Notice Date, but the Trigger Event Write-down Date is scheduled to occur prior to the relevant High-Trigger Write-down/Conversion Date,
 - (A) in the case of clause (x) above, the Issuer shall postpone giving such Trigger Event Write-down Notice until the date on which a High-Trigger Write-down/Conversion Notice has been given with respect to all such outstanding High-Trigger Contingent Capital and such date shall be deemed to be the Trigger Event Notice Date; and
 - (B) in the case of clauses (x) and (y) above, if the Trigger Event Write-down Date is scheduled to occur prior to the High-Trigger Write-down/Conversion Date (or, in the case of more than one High-Trigger Write-down/Conversion Date, the latest High-Trigger Write-down/Conversion Date), the Trigger Event Write-down Date shall be postponed to the High-Trigger Write-down/Conversion Date (or the latest High-Trigger Write-down/Conversion Date, as applicable) and such postponement shall be specified in such Trigger Event Write-down Notice.
- (iii) If (A) the Issuer is required to give a Trigger Event Write-down Notice pursuant to clause (b)(i) of this Condition 6 in relation to an Ordinary Publication Date, and (B) prior to the earlier of the Ordinary Trigger Event Notice Date and the Trigger Breach Determination Date, the FINMA, upon the request of UBS AG, has agreed in writing that a Contingent Write-down is not required as a result of actions taken by the Group or circumstances or events, in each case, that have had, or imminently will have, the effect of restoring the CET1 Ratio as of the Balance Sheet Date relating to the relevant Ordinary Publication Date, after giving pro forma effect to such actions, circumstances or events, to a level above the Write-down Threshold that the FINMA and UBS AG deem, in their sole discretion, to be adequate at such time, the Issuer (x) shall not give such Trigger Event Write-down Notice pursuant to clause (b)(i) of this Condition 6 in relation to the relevant Ordinary Publication Date, and (y) shall give notice to the Holders on or prior to the Trigger Breach Determination Date in accordance with Condition 12 (*Notices*), which notice shall state that no Contingent Write-down shall occur in relation to the relevant Ordinary Publication Date.

(c) *Viability Event*

- (i) Upon the occurrence of a Viability Event, (A) the Issuer shall give notice to the Holders in accordance with Condition 12 (*Notices*) within three days of the date on which such Viability Event occurred, which notice shall (x) state that a Viability Event has occurred and a Contingent Write-down will take place and (y) specify the date on which the Contingent Write-down will take place, which date shall be no later than 10 Business Days after the date of such notice (such specified date, the "**Viability Event Write-down Date**", and such notice, a "**Viability Event Write-down Notice**"), and (B) a Contingent Write-down shall occur on the Viability Event Write-down Date in accordance with clause (d) of this Condition 6.
- (ii) A "**Viability Event**" shall be deemed to have occurred if:

- (A) the FINMA has notified UBS AG in writing that it has determined a write-down of the Notes, together with the conversion or write down, as applicable, of holders' claims in respect of any other capital instruments issued by any member of the Group that, pursuant to their terms or by operation of law, are capable of being converted into equity or written down at that time, is, because customary measures to improve UBS AG's capital adequacy are at the time inadequate or infeasible, an essential requirement to prevent UBS AG from becoming insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business; or
- (B) customary measures to improve UBS AG's capital adequacy being at the time inadequate or infeasible, UBS AG has received an irrevocable commitment of direct or indirect extraordinary support from the Public Sector (beyond customary transactions and arrangements in the ordinary course) that has, or imminently will have, the effect of improving UBS AG's capital adequacy and without which, in the determination of (and as notified in writing by) the FINMA, UBS AG would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.

For the avoidance of doubt, it is understood that, a Viability Event may occur irrespective of whether or not a Trigger Event has occurred or whether any of the conditions to the issuance of a Trigger Event Write-down Notice have been met.

(d) *Contingent Write-down*

If the Issuer has given a Write-down Notice in accordance with this Condition 6, then on the relevant Write-down Date,

- (i) the full principal amount of each Note shall automatically be written down to zero, the Notes shall be cancelled and all references to the principal amount of the Notes in these Terms and Conditions shall be construed accordingly;
- (ii) the Holders shall be automatically deemed to irrevocably waive their right to receive, and no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of the Notes written down pursuant to clause (i) above (*bedingter Forderungsverzicht*);
- (iii) the Issuer shall pay (A) any accrued and unpaid interest on the Notes and (B) any Additional Amounts related to any interest on the Notes, in the case of each of subclauses (A) and (B) of this clause (iii), if and only to the extent that such interest or Additional Amount, as applicable, became due and payable to the Holders prior to the relevant Write-down Notice Date; and
- (iv) except as described in clause (iii) above, all rights of any Holder for payment of any amounts under or in respect of the Notes (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Event of Default) shall become null and void, irrespective of whether such amounts have become due and payable prior to the relevant Write-down Notice Date or the Write-down Date.

(e) *Determination of CET1 Ratio and Trigger CET1 Ratio*

With respect to any Publication Date, (i) the CET1 Ratio as of the relevant Balance Sheet Date, (ii) the Trigger CET1 Ratio as of such Publication Date and (iii) the components of both of the foregoing, in each case, as published on such Publication Date, shall be final for purposes of this Condition 6, and any revisions, restatements or adjustments to any of the calculations described in subclauses (i) through (iii) of this clause (e) subsequently published shall have no effect for purposes of this Condition 6.

7. **PAYMENTS**

- (a) If the Scheduled Due Date for any payment under the Notes does not fall on a Payment Business Day, the Issuer undertakes to effect payment for value on the Payment Business Day immediately following such Scheduled Due Date, and the Holders shall not be entitled to any additional sum in relation to such payment. All payments required to be made under the Notes (including any Additional Amounts) shall be made to the Holders in euro without collection costs, without any restrictions and whatever the circumstances may be, irrespective of nationality, domicile or residence of the relevant Holder and without certification, affidavit or the fulfilment of any other formality.
- (b) The Issuer reserves the right to appoint or, after any such appointment, to terminate the appointment of, one or more paying agents to carry out any payment, calculation or other functions in respect of the Notes (each, a "**Paying Agent**"). Any such appointment or termination of appointment shall only take effect not more than 45 and not less than 30 days' after the Issuer has notified the Holders of such appointment or termination pursuant to Condition 12 (*Notices*); *provided, however*, that, in the case of insolvency of any Paying Agent, any termination of such Paying Agent and appointment of any other Paying Agent shall take immediate effect. Notwithstanding the foregoing, if legislation is enacted in Switzerland providing for the taxation of payments according to principles similar to those laid down in the draft legislation proposed by the Swiss Federal Council on 24 August 2011, the Issuer shall appoint a Paying Agent outside of Switzerland if and to the extent that making such payments through such Paying Agent would eliminate any withholding tax that would otherwise apply to such payments pursuant to such legislation.

8. **TAXATION**

- (a) All payments to be made by or on behalf of the Issuer pursuant to these Terms and Conditions (including for the avoidance of doubt, payments by a Paying Agent) shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other government charges of any nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of any Tax Jurisdiction or any political subdivision thereof or any authority of or in a Tax Jurisdiction or any political subdivision thereof having the power to impose, levy, collect, withhold or assess Taxes, unless withholding, deduction or accounting for such Taxes is required by law.
- (b) In the event that any payment to be made by or on behalf of the Issuer pursuant to these Terms and Conditions (including for the avoidance of doubt, payments by a Paying Agent) is subject to any withholding or deduction for, or on account of, any Taxes by requirement of law in a Tax Jurisdiction, the Issuer shall pay such additional amounts as will result in the Holders receiving the amounts that they would have received pursuant to these Terms and Conditions if no such withholding or deduction had been required ("**Additional Amounts**").
- (c) The Issuer shall not be required to pay any Additional Amounts pursuant to clause (b) of this Condition 8 in relation to any Note:
 - (i) if the relevant Holder is liable for such Taxes on such Note as a result of having some connection with the relevant Tax Jurisdiction other than its mere ownership or possession of such Note or the receipt of principal or interest in respect thereof; or
 - (ii) where such withholding or deduction is required to be made pursuant to the EU Savings Tax Directive, or any law implementing or complying with, or introduced in order to conform to, the EU Savings Tax Directive or pursuant to any agreements between the European Community and any other country or territory providing for measures equivalent to those laid down in the EU Savings Tax Directive; or

- (iii) if the relevant Holder would have been able to avoid such withholding or deduction by arranging to receive payment through a Paying Agent (if any is appointed) or through another Paying Agent (if more than one is appointed) in another Member State of the European Union; or
 - (iv) with respect to any Tax collected pursuant to the provisions of, or any laws or an agreement with any Tax Jurisdiction relating to, Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "**FATCA**"); or
 - (v) where such withholding or deduction is required to be made pursuant to laws enacted by Switzerland providing for the taxation of payments according to principles similar to those laid down in the draft legislation proposed by the Swiss Federal Council on 24 August 2011, in particular, the principle to have a person other than the Issuer withhold or deduct tax; or
 - (vi) where such withholding or deduction is required to be made pursuant to an agreement between Switzerland and another country or countries on final withholding taxes levied by Swiss paying agents in respect of persons resident in the other country or countries on income of such person on Notes booked or deposited with a Swiss paying agent (*Abgeltungssteuer*); or
 - (vii) to the extent any combination of the above applies.
- (d) Any reference in these Terms and Conditions to amounts payable by the Issuer pursuant to these Terms and Conditions includes (i) any Additional Amount payable pursuant to this Condition 8 and (ii) any sum payable pursuant to an obligation taken in addition to or in substitution for the obligation in this Condition 8.

9. **STATUTE OF LIMITATIONS**

In accordance with Swiss law, (i) claims for interest payments under the Notes shall become time-barred after the five-year period and (ii) claims for the repayment or redemption of Notes shall become time-barred after the ten-year period, in each case, commencing on the date on which such payments, repayment or redemption become due and payable.

10. **EVENTS OF DEFAULT**

- (a) If any of the following events shall occur, such occurrence shall constitute an "**Event of Default**":
- (i) the Issuer shall fail to pay the principal amount of any Note when and as the same shall become due and payable under these Terms and Conditions, whether at the due date pursuant to clause (a) of Condition 5 (*Redemption and Purchase*) or at a date fixed for early redemption pursuant to clause (b), (c), (d) or (e) of Condition 5 (*Redemption and Purchase*), and such failure shall continue unremedied for a period of 30 days; or
 - (ii) the Issuer shall fail to pay any interest on the Notes when and as the same shall become due and payable under these Terms and Conditions, whether at the due date pursuant to Condition 4 (*Interest*) or at a date fixed for early redemption pursuant to clause (b), (c), (d) or (e) of Condition 5 (*Redemption and Purchase*), and such failure shall continue unremedied for a period of 30 days; or
 - (iii) the Issuer shall fail to observe or perform any other covenant, condition, or agreement contained in these Terms and Conditions and such failure either (A) is incapable of remedy or (B) shall continue unremedied for a period of 60 days after written notice thereof from any Holder to the Issuer; or
 - (iv) a Bankruptcy Event.
- (b) Upon the occurrence of an Event of Default relating to any failure of the Issuer to meet any payment obligation under these Terms and Conditions and subject to Condition 6

(*Contingent Write-down*), (i) such payment obligation (and such payment obligation only) shall be immediately deemed a due and payable (*fällige*) payment obligation of the Issuer, and (ii) if (A) the relevant Holder has formally requested payment of such payment obligation, (B) such payment obligation has not been fulfilled within the statutory period under Swiss law commencing after the date of such formal request and (C) a writ of payment (*Zahlungsbefehl*) has been issued with respect to such payment obligation pursuant to Swiss insolvency laws, the relevant Holder may institute proceedings against the Issuer in Switzerland (but not elsewhere) to enforce its rights with respect to such payment obligation under Swiss insolvency laws.

- (c) If an insolvency proceeding with respect to the Issuer is instituted in Switzerland in accordance with clause (b) of this Condition 10, the Issuer shall not (i) after having received the writ of payment (*Zahlungsbefehl*) relating to the relevant payment obligation, argue or plead that such payment obligation is not due and payable by the Issuer, or (ii) prior to the declaration of bankruptcy (or similar proceeding under Swiss insolvency laws), make any payment to the relevant Holder under or in connection with the Notes.
- (d) In the case of any Event of Default arising under clause (a)(iii) above and subject to Condition 6 (*Contingent Write-down*), any Holder may seek specific performance or damages with respect to such Event of Default pursuant to the Swiss Code if so entitled thereunder.
- (e) In the case of any Event of Default arising under clause (a)(iv) above and subject to Condition 6 (*Contingent Write-down*), any Holder may, by written notice to the Issuer, declare the principal amount of any of its Notes, together with any accrued and unpaid interest thereon, immediately due and payable, without presentment, demand, protest or other notice of any kind.
- (f) No remedy against the Issuer other than those described in this Condition 10 shall be available to the Holders in connection with the Issuer's obligations under these Terms and Conditions, whether for the recovery of amounts owing under these Terms and Conditions or in respect of any breach by the Issuer of any of its other obligations under these Terms and Conditions or otherwise. In particular, no Holder may declare (i) the principal amount of any Notes due and payable prior to the Maturity Date, or (ii) any interest on any Notes due and payable prior to the relevant Interest Payment Date, except, in the case of each of subclauses (i) and (ii) of this clause (f), pursuant to clause (e) of this Condition 10.

11. AMENDMENTS

- (a) If an Alignment Event has occurred and is continuing, the Issuer may, without the consent of the Holders, amend these Terms and Conditions in order to align them (to the extent possible) with the terms of any outstanding capital instruments that (x) have been issued by any member of the Group, (y) qualify as Tier 2 Capital and Progressive Capital Component and (z) have terms and conditions that (A) include a write-down feature, and (B) contain one or more provisions that are, in the reasonable opinion of the Issuer, different in any material respect from those in these Terms and Conditions, which provisions, if they had been included in these Terms and Conditions, would have prevented the Notes from qualifying as Progressive Capital Component immediately prior to the change in the National Regulations related to such Alignment Event, *provided that*
 - (i) such amendment, in the reasonable opinion of the Issuer, does not adversely affect the rights and claims of the Holders under the Notes;
 - (ii) the Issuer has given the Holders not less than 30 days' notice of such amendment in accordance with Condition 12 (*Notices*), which notice (the "**Amendment Notice**") shall (A) be irrevocable and (B) state the date on which such amendment shall be effective (the "**Amendment Effective Date**");

- (iii) the FINMA has approved such amendment in writing;
 - (iv) no Viability Event has occurred prior to the applicable Amendment Effective Date; and
 - (v) prior to the date of the applicable Amendment Notice, the Issuer has not delivered an Early Redemption Notice, pursuant to which it has notified the Holders that it is exercising its right of early redemption under clause (e) of Condition 5 (*Redemption and Purchase*) as the result of the occurrence of the Alignment Event.
- (b) In addition to its rights under clause (a) of this Condition 11, the Issuer may, without the consent of the Holders, make any amendment to these Terms and Conditions that it considers to be (i) necessary or desirable to give effect to the provisions of clause (a) of Condition 13 (*Substitution*) (including, without limitation, (x) if the Substitute Issuer is organised and/or resident for tax purposes in a jurisdiction other than Switzerland, any amendments to any references to the jurisdiction of "Switzerland" contained herein, including, without limitation, amendments to the definition of the term "Bankruptcy Event", the definition of the terms "Business Day" and "Payment Business Day", the governing law of the subordination provisions set forth in Condition 3 (*Status and Subordination*) and the provisions of Condition 10 (*Events of Default*)), and (y) any amendments to reflect UBS AG's guarantee described in clause (a)(vi) of Condition 13 (*Substitution*)), or (ii) formal, minor or technical in nature or (iii) necessary to correct a manifest error.
- (c) The Issuer shall notify the Holders of any amendments made pursuant to clause (b) of this Condition 11 in accordance with Condition 12 (*Notices*), which notice shall state the date on which such amendment shall be effective.
- (d) Any amendment made pursuant to this Condition 11 shall be binding on the Holders in accordance with its terms.

12. NOTICES

So long as the Notes are listed on the SIX Swiss Exchange, notices to Holders shall be given by the Issuer (i) by means of electronic publication on the internet website of the SIX Swiss Exchange (www.six-swiss-exchange.com), where notices are currently published under the address www.six-swiss-exchange.com/news/official_notices/search_en.html or (ii) otherwise in accordance with the regulations of the SIX Swiss Exchange. Any notice shall be deemed to be validly given on the date of such publication or, if published more than once, on the date of the first such publication.

If the Notes are for any reason no longer listed on the SIX Swiss Exchange, notices to Holders shall be given by the Issuer to the Intermediary for forwarding to the Holders. Any such notice shall be deemed to be validly given on the date of delivery to the Intermediary.

13. SUBSTITUTION

- (a) The Issuer may, without the consent of the Holders, substitute any entity (whether or not such entity is organised under the laws of Switzerland) (such substitute entity, the "**Substitute Issuer**") for itself as principal debtor under the Notes upon giving no more than 30 and no less than 10 days' notice to the Holders in accordance with Condition 12 (*Notices*), *provided that*:
- (i) at least 95 per cent. of the Substitute Issuer's capital and voting rights are held, directly or indirectly, by UBS AG;
 - (ii) the Issuer is not in default in respect of any amount payable under the Notes at the time of such substitution;
 - (iii) the Issuer and the Substitute Issuer have entered into such documents (the "**Substitution Documents**") as are necessary to give effect to such substitution

and pursuant to which the Substitute Issuer has undertaken in favour of each Holder to be bound by these Terms and Conditions as the principal debtor under the Notes in place of the Issuer;

- (iv) if the Substitute Issuer is resident for tax purposes in a jurisdiction (the "**New Residence**") other than that in which the Issuer prior to such substitution was resident for tax purposes (the "**Former Residence**"), the Substitution Documents contain an undertaking and/or such other provisions as may be necessary to ensure that each Holder has the benefit of an undertaking in terms corresponding to the provisions of Condition 8 (*Taxation*), with the substitution of references to the Former Residence with references to the New Residence;
 - (v) the Issuer and the Substitute Issuer have obtained all necessary governmental approvals and consents for such substitution and for the performance by the Substitute Issuer of its obligations under the Substitution Documents;
 - (vi) UBS AG has irrevocably and unconditionally guaranteed to the Holders, on a subordinated basis, the due and punctual payment of all amounts due and payable by the Substitute Issuer under, or in respect of, the Notes pursuant to article 111 of the Swiss Code;
 - (vii) if the Substitute Issuer is not organised under the laws of Switzerland, the Substitute Issuer has appointed a process agent as its agent in Switzerland to receive service of process on its behalf in relation to any legal proceedings arising out of or in connection with the Notes; and
 - (viii) the Substitute Issuer has appointed a Paying Agent in Switzerland that is a participant in the Intermediary.
- (b) Upon any substitution pursuant to clause (a) of this Condition 13, the Substitute Issuer shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Notes with the same effect as if the Substitute Issuer had been named as Issuer in these Terms and Conditions, and the Issuer shall be released from its obligations under the Notes.

14. **FURTHER ISSUES**

The Issuer may from time to time without the consent of the Holders issue further notes and, *provided* that such notes have the same terms and conditions as the Notes in all respects (or in all respects except for the issue date and/or first date on which interest is paid), such further notes shall be consolidated and form a single series with the Notes. If the Issuer issues any such further notes pursuant to this Condition 14, references in these Terms and Conditions to "**Notes**" shall include such further notes, unless the context otherwise requires.

15. **CURRENCY INDEMNITY**

Any amount received or recovered by any Holder in a currency other than euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of UBS AG or otherwise) under the Notes shall only constitute a discharge of the Issuer to the extent of the amount in euro that such Holder is able to purchase with the amount so received or recovered in such other currency on the date of such receipt or recovery (or, if it is not practicable to purchase euro with such amount on such date, on the first date on which it is practicable to do so). If the amount of euro such Holder is able to purchase is less than the amount owed by the Issuer to such Holder under the Notes, the Issuer shall indemnify such Holder against any loss sustained by it as a result. In addition, the Issuer shall indemnify such Holder for the costs of making such purchase. For purposes of this Condition 15, it is sufficient for the relevant Holder to demonstrate that it would have suffered a loss had an actual purchase been made. The indemnities under this Condition 15 shall (i) constitute a separate and independent obligation from the Issuer's other obligations hereunder, (ii) give rise to a separate and independent cause of action, (iii) apply irrespective of any indulgence granted by any Holder and (iv) continue in full force and effect despite any other

judgment, order, claim or proof for a liquidated amount in respect of any amount due under the Notes or any other judgment or order.

16. **NO SET-OFF BY HOLDERS**

Subject to applicable law, each Holder, by acceptance of any direct or beneficial interest in a Note, agrees that it shall not, and waives its right to, exercise, claim or plead any right of set-off, compensation or retention with respect to any amount owed to it by the Issuer in respect of, or arising in connection with, the Notes.

17. **NO CONVERSION**

Notwithstanding the powers of the FINMA under articles 25 *et seq.* of the FBA, the Notes shall under no circumstances be converted into equity of UBS AG, and shall only absorb losses pursuant to these Terms and Conditions.

18. **GOVERNING LAW AND JURISDICTION**

- (a) The Notes shall be governed by and construed in accordance with the laws of Switzerland.
- (b) The courts of the city of Zurich (venue being Zurich 1) shall have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to €[•] after deduction of the commission incurred in connection the issue of the Notes, will be used by UBS AG to augment its regulatory capital base.

DESCRIPTION OF THE ISSUER

1. Overview

UBS AG with its subsidiaries (together, "**UBS Group**", "**Group**" or "**UBS**") draws on its 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. UBS's business strategy is centred on its pre-eminent global wealth management businesses and its leading universal bank in Switzerland. These businesses, together with a client-focused Investment Bank and a strong, well-diversified Global Asset Management business, will enable UBS to expand its premier wealth management franchise and drive further growth across the Group. Headquartered in Zurich and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centres.

On 31 December 2013 UBS's common equity tier 1 capital ratio¹ was 18.5% on a phase-in basis and 12.8% on a fully applied basis, invested assets stood at CHF 2,390 billion, equity attributable to UBS shareholders was CHF 48,002 million and market capitalisation was CHF 65,007 million. On the same date, UBS employed 60,205 people².

The rating agencies Standard & Poor's, Fitch Ratings and Moody's have published credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to 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 and Standard & Poor's may be attributed a plus or minus sign, and those from Moody's a number. These supplementary attributes indicate the relative position within the respective rating class. UBS AG has long-term senior debt ratings of A (stable outlook) from Standard & Poor's, A2 (stable outlook) from Moody's and A (stable outlook) from Fitch Ratings.

The rating from Fitch Ratings has been issued by Fitch Ratings Limited, and the rating from Standard & Poor's has been issued by Standard & Poor's Credit Market Services Europe Limited. Both are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the "**CRA Regulation**"). The rating from Moody's has been issued by Moody's Investors Service, Inc., which is not established in the EEA and is not certified under the CRA Regulation, but the rating it has issued is endorsed by Moody's Investors Service Ltd., a credit rating agency established in the EEA and registered under the CRA Regulation.

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 and Swiss Federal Banking Law as an *Aktiengesellschaft*, a corporation that has issued shares of common stock to investors.

According to Article 2 of the Articles of Association of UBS AG, dated 14 November 2013 ("**Articles of Association**"), the purpose of UBS AG is the operation of a bank. Its scope of

¹ Based on the Basel III framework, as applicable to Swiss systemically relevant banks. The common equity tier 1 capital ratio is the ratio of common equity tier 1 capital to risk-weighted assets. The information provided on a fully applied basis entirely reflects the effects of the new capital deductions and the phase out of ineligible capital instruments. The information provided on a phase-in basis gradually reflects those effects during the transition period. For information as to how common equity tier 1 capital is calculated, refer to the "Capital management" section of UBS AG's fourth quarter 2013 report.

² Full-time equivalents.

operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad.

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.

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

3. Business Overview

3.1 *Organisational Structure of UBS AG*

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

UBS AG is the parent company of the UBS Group. As such, to a certain extent, it is dependent on certain of its subsidiaries.

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

3.2 *Business Divisions and Corporate Center*

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

3.2.1 *Wealth Management*

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

3.2.2 *Wealth Management Americas*

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

3.2.3 *Retail & Corporate*

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

3.2.4 *Global Asset Management*

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

3.2.5 *Investment Bank*

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

3.2.6 *Corporate Center*

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

3.3 *Competition*

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

3.4 *Recent Developments*

UBS's results as of and for the quarter ended 31 December 2013, as presented in UBS AG's fourth quarter report 2013 (including unaudited consolidated financial statements of UBS Group).

UBS Group: Net profit attributable to UBS shareholders for the fourth quarter of 2013 was CHF 917 million compared with CHF 577 million in the third quarter of 2013. Operating profit before tax was CHF 449 million compared with CHF 356 million in the prior quarter. On an adjusted basis³, profit before tax was CHF 755 million compared with CHF 484 million in the third quarter of 2013. Operating income increased by CHF 46 million, mainly due to an increase in net fee and commission income, primarily in the Investment Bank, as well as higher net interest and trading revenues, partly offset by lower other income. Operating expenses decreased by CHF 48 million, largely as a result of a reduction in charges for provisions for litigation, regulatory and similar matters, partly offset by increases in other non-personnel expenses and, to a lesser extent, personnel expenses. Furthermore, UBS recorded a net tax benefit of CHF 470 million compared with a net tax benefit of CHF 222 million in the prior quarter.

Wealth Management: profit before tax was CHF 471 million in the fourth quarter of 2013, a decrease of CHF 84 million compared with CHF 555 million in the third quarter. Adjusted⁸ for restructuring charges, profit before tax decreased to CHF 512 million from CHF 617 million. Operating income increased by CHF 22 million to CHF 1,859 million, mainly reflecting higher net fee and commission income. Operating expenses increased by CHF 107 million to CHF 1,389 million as lower charges for provisions for litigation, regulatory and similar matters were more than offset by seasonally higher other general and administrative expenses and higher variable compensation expenses. The gross margin on invested assets was stable at 85 basis points. Net new money was CHF 5.8 billion compared with CHF 5.0 billion in the prior quarter.

Wealth Management Americas: profit before tax was USD 254 million in the fourth quarter of 2013 compared with a profit of USD 218 million in the third quarter. Adjusted⁸ for restructuring charges, profit before tax increased to USD 283 million from USD 232 million. The reported result reflected a 6% increase in operating income due to higher recurring income and higher transaction-based revenue. This was partly offset by a 4% increase in operating expenses, mainly due to higher financial advisor compensation and restructuring charges. Net new money inflows increased to USD 4.9 billion from USD 2.1 billion in the prior quarter, mainly due to higher inflows from financial advisors employed with UBS for more than one year.

Retail & Corporate: profit before tax was CHF 332 million in the fourth quarter of 2013 compared with CHF 402 million in the third quarter. Adjusted⁸ for restructuring charges, profit before tax decreased to CHF 344 million from CHF 417 million. Operating income declined by CHF 27 million, mainly due to higher credit loss expenses, and adjusted operating expenses increased by CHF 46 million, mainly due to higher charges for provisions for litigation, regulatory and similar matters. The annualised net new business volume growth rate was 3.8%.

Global Asset Management: profit before tax in the fourth quarter of 2013 was CHF 130 million compared with CHF 118 million in the third quarter, with the increase primarily due to higher performance fees, partly offset by higher operating expenses. Adjusted⁸ for restructuring charges, profit before tax was CHF 143 million compared with CHF 130 million. Excluding money market flows, net new money outflows were CHF 1.5 billion from third parties and CHF 3.2 billion from clients of UBS's wealth management businesses.

Investment Bank: recorded a profit before tax of CHF 297 million in the fourth quarter of 2013 compared with CHF 251 million in the third quarter. Adjusted⁸ for restructuring charges, profit before tax was CHF 386 million compared with CHF 335 million. This increase was mainly due to higher revenues in Corporate Client Solutions, partly offset by an increase in operating expenses. Fully applied Basel III risk-weighted assets (RWA) increased to CHF 62 billion from CHF 59 billion. The increase was primarily due to the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA, partly offset by reductions in credit risk and market risk RWA.

Corporate Center – Core Functions: recorded a loss before tax of CHF 565 million in the fourth quarter of 2013 compared with a loss of CHF 479 million in the third quarter. The fourth quarter

³ Unless otherwise indicated, fourth-quarter "adjusted" figures exclude each of the following items, to the extent applicable, on a Group and business division level: own credit loss of CHF 94 million, gains on sales of real estate of CHF 61 million, a net loss of CHF 75 million related to the buyback of debt in a public tender offer and net restructuring charges of CHF 198 million. For the third quarter the items excluded were an own credit loss of CHF 147 million, gains on sales of real estate of CHF 207 million and net restructuring charges of CHF 188 million.

loss was mainly due to treasury income remaining in Corporate Center – Core Functions of negative CHF 343 million, an own credit loss of CHF 94 million and operating expenses remaining in Corporate Center – Core Functions of CHF 200 million. These negative effects were partly offset by gains of CHF 61 million on sales of real estate.

Corporate Center – Non-core and Legacy Portfolio: recorded a loss before tax of CHF 446 million in the fourth quarter of 2013 compared with a loss of CHF 693 million in the third quarter. Total operating expenses were CHF 317 million and included a charge of CHF 68 million for the annual UK bank levy. Operating income was negative CHF 130 million, mainly due to a negative debit valuation adjustment (DVA) as well as unwind and novation activity in Non-core. Fully applied RWA decreased by CHF 5 billion to CHF 64 billion as a CHF 12 billion combined reduction in credit risk and market risk RWA was partly offset by a CHF 7 billion increase in operational RWA, mainly resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA.

Balance sheet: As of 31 December 2013, UBS's balance sheet assets stood at CHF 1,010 billion, a decrease of CHF 39 billion from 30 September 2013, primarily due to a continued reduction in positive replacement values in Non-core and Legacy Portfolio. Funded assets, which represent total assets excluding positive replacement values and collateral delivered against over-the-counter (OTC) derivatives, decreased by CHF 3 billion to CHF 739 billion, mainly due to reductions in lending assets as well as currency effects, partly offset by increases in both collateral trading and other assets. Excluding currency effects, funded assets increased by approximately CHF 4 billion.

Capital management: UBS's phase-in common equity tier 1 (CET1) ratio 1 stood at 18.5% as of 31 December 2013, an improvement of 1.0 percentage point from 30 September 2013. Phase-in CET1 capital increased by CHF 3.2 billion to CHF 42.2 billion, mainly due to the exercise of UBS's option to acquire the SNB StabFund's equity and the fourth quarter net profit. Phase-in RWA rose by CHF 6.3 billion to CHF 228.6 billion. This increase primarily reflects incremental RWA of CHF 22.5 billion resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA, which was partly offset by reductions in credit and market risk RWA, mainly due to UBS's continued efforts to reduce exposures within Non-core and Legacy Portfolio. On a fully applied basis, the CET1 ratio improved 0.9 percentage points to 12.8%. The Swiss SRB leverage ratio improved 49 basis points to 4.65% on a phase-in basis, partly due to the exercise of the SNB StabFund option, which contributed 23 basis points to the increase.

Invested assets: Group invested assets stood at CHF 2,390 billion at the end of the fourth quarter, an increase of CHF 51 billion on the prior quarter. Invested assets in Wealth Management increased by CHF 15 billion to CHF 886 billion as of 31 December 2013, supported by positive market performance of CHF 12 billion and net new money inflows of CHF 6 billion, partly offset by negative currency translation effects of CHF 2 billion. Invested assets in Wealth Management Americas increased by CHF 34 billion to CHF 865 billion as of 31 December 2013. In US dollar terms, invested assets increased by USD 51 billion to USD 970 billion, reflecting positive market performance of USD 46 billion as well as continued net new money inflows. Invested assets in Global Asset Management increased by CHF 3 billion to CHF 583 billion as of 31 December 2013. Positive market performance of CHF 16 billion was partly offset by net new money outflows of CHF 7 billion and negative currency translation effects of CHF 6 billion.

3.5 ***Trend Information***

As stated in the outlook statement presented in UBS AG's fourth quarter 2013 report, including unaudited consolidated financial statements of UBS Group and issued on 4 February 2014, at the start of the first quarter of 2014, many of the underlying challenges and geopolitical issues that UBS has previously highlighted remain. The continued absence of sustained and credible improvements to unresolved issues in Europe, continuing US fiscal and monetary policy issues, emerging markets fragility and the mixed outlook for global growth would make improvements in prevailing market conditions unlikely. This could cause traditional improvements in first quarter activity levels and trading volumes to fail to materialise fully and would generate headwinds for revenue growth, net interest margin and net new money. Despite possible headwinds, UBS expects that its wealth management businesses will continue to attract net new

money, reflecting new and existing clients' steadfast trust in the firm. UBS will continue to execute on its strategy in order to ensure the firm's long-term success and to deliver sustainable returns for shareholders.

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

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

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

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

4.1 **Board of Directors**

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

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

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

4.1.1 *Members of the Board of Directors*

Members and business addresses	Title	Term of office	Current principal positions outside UBS AG
Axel A. Weber UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Chairman	2014	Member of the board of the Institute of International Finance the International Monetary Conference; member of the European Banking Group, the European Financial Services Roundtable and the Group of Thirty, Washington, D.C.; research fellow at the Center for Economic Policy Research,

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Members and business addresses	Title	Term of office	Current principal positions outside UBS AG
			London, and the Center for Financial Research, Cologne; senior research fellow at the Center for Financial Studies, Frankfurt/Main; member of the Monetary Economics and International Economics Councils of the leading association of German-speaking economists, the <i>Verein für Socialpolitik</i> ; member of the Advisory Board of the German Market Economy Foundation and of the Advisory Board of the Department of Economics at the University of Zurich; member of the IMD Foundation, Lausanne and of the International Advisory Panel of the Monetary Authority of Singapore.
Michel Demaré UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Independent Vice Chairman	2014	Chairman of the board of Syngenta, a member of the IMD Supervisory Board, Lausanne, and Chairman of SwissHoldings, Berne.
David Sidwell UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Senior Independent Director	2014	Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; Chairman of the board of Village Care, New York; Director of the National Council on Aging, Washington D.C.
Reto Francioni Deutsche Börse AG, Mergenthalerallee 61, D-65760 Eschborn	Member	2014	CEO of Deutsche Börse AG and holding various mandates in boards of subsidiaries within the Deutsche Börse Group; professor at the University of Basel. Member of the Shanghai International Financial Advisory Committee, the Advisory Board of Moscow International Financial Center; the International Advisory Board of Instituto de Empresa; the Board of Trustees of the Goethe Business School; the Steering Committee of the Project "Role of Financial Services in Society", World Economic Forum; the German-Franco Round Table; the

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Members and business addresses	Title	Term of office	Current principal positions outside UBS AG
			Strategic Advisory Group of VHV Insurance.
Rainer-Marc Frey Office of Rainer-Marc Frey, Seeweg 39, CH-8807 Freienbach	Member	2014	Founder of Horizon21 AG; Chairman of Horizon21 AG, its holding company and related entities and subsidiaries; member of the board of DKSH Group, Zurich, and of the Frey Charitable Foundation, Freienbach; Chairman of Lonrho Holdings Ltd. and Vice Chairman of its operating company.
Ann F. Godbehere UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Member	2014	Board member and Chairperson of the Audit Committee of Prudential plc, Rio Tinto plc, Rio Tinto Limited, Atrium Underwriters Ltd., and Atrium Underwriting Group Ltd., London. Member of the board of Arden Holdings Ltd., Bermuda, and British American Tobacco plc.
Axel P. Lehmann Zurich Insurance Group, Mythenquai 2, CH-8002 Zurich	Member	2014	Member of the Group Executive Committee, Group Chief Risk Officer and Regional Chairman Europe of Zurich Insurance Group, Zurich; Chairman of the board of Farmers Group, Inc.; Chairman of the board of the Institute of Insurance Economics at the University of St. Gallen; former Chairman and member of the Chief Risk Officer Forum; member of the board of Economiesuisse.
Helmut Panke BMW AG, Petuelring 130, D-80788 Munich	Member	2014	Member of the board and Chairperson of the Regulatory and Public Policy Committee of Microsoft Corporation; member of the board and Chairperson of the Safety & Risk Committee of Singapore Airlines Ltd.; member of the Supervisory Board of Bayer AG
William G. Parrett UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Member	2014	Member of the board and Chairperson of the Audit Committee of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc.; member of the board of

Members and business addresses	Title	Term of office	Current principal positions outside UBS AG
			iGATE. Past Chairman of the board of the United States Council for International Business and of United Way Worldwide; member of the Carnegie Hall Board of Trustees.
Isabelle Romy Froriep Renggli, Bellerivestrasse 201, CH-8034 Zurich	Member	2014	Partner at Froriep, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; member and Vice Chairman of the Sanction Commission of the SIX Swiss Exchange.
Beatrice Weder di Mauro Johannes Gutenberg- University Mainz, Jakob Welder-Weg 4, D-55099 Mainz	Member	2014	Professor at the Johannes Gutenberg University, Mainz; research fellow at the Center for Economic Policy Research, London; member of the board of Roche Holding Ltd., Basel; and Robert Bosch GmbH, Stuttgart. Member of the Corporate Governance Commission of the German Government and the Expert Group of European Commission on Debt Redemption Fund and Eurobills.
Joseph Yam UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Member	2014	Executive Vice President of the China Society for Finance and Banking; member of the international advisory councils of a number of government and academic institutions. Member of the board of Johnson Electric Holdings Limited and of UnionPay International Co., Ltd.

4.1.2 *Organisational principles and structure*

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

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

4.1.3 *Audit Committee*

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

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

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

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

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

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

4.2 *Group Executive Board*

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

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

4.2.1 *Members of the Group Executive Board*

Sergio P. Ermotti	Group Chief Executive Officer
Markus U. Diethelm	Group General Counsel
Lukas Gähwiler	Chief Executive Officer UBS Switzerland, Chief Executive Officer Retail & Corporate
Ulrich Körner	Chief Executive Officer Global Asset Management, Chief Executive Officer UBS Group EMEA
Philip J. Lofts	Group Chief Risk Officer
Robert J. McCann	Chief Executive Officer Wealth Management Americas, Chief Executive Officer UBS Group Americas

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Tom Naratil	Group Chief Financial Officer, Group Chief Operating Officer
Andrea Orcel	Chief Executive Officer Investment Bank
Chi-Won Yoon	Chief Executive Officer UBS Group Asia Pacific
Jürg Zeltner	Chief Executive Officer Wealth Management

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

4.3 *Potential Conflicts of Interest*

Members of the BoD and GEB may act as directors or executive officers of other companies (for current principal positions outside UBS AG, if any, of BoD members, please see section 4.1.1 above) and may have economic or other private interests that differ from those of UBS AG. Potential conflicts of interest may arise from these positions or interests. UBS 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 section 31 of the Articles of Association, UBS AG shareholders elect the auditors for a term of office of one year. At the AGM of 28 April 2011, 3 May 2012 and 2 May 2013, Ernst & Young Ltd., Aeschengraben 9, CH-4002 Basel ("EY") were elected as auditors for the financial statements of UBS AG and the consolidated financial statements of the UBS Group for a one-year term.

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

6. **Major Shareholders of UBS AG**

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

The following are the most recent notifications of holdings in UBS AG's share capital filed in accordance with the Swiss Stock Exchange Act, based on UBS AG's registered share capital at the time of the disclosure: (i) 18 September 2013, Government of Singapore Investment Corp disclosed a change of its corporate name to GIC Private Limited and a holding of 6.40%; (ii) 30 September 2011, Norges Bank (the Central Bank of Norway), 3.04%; (iii) 17 December 2009, BlackRock Inc., New York, USA, 3.45%.

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

As of 31 December 2013, the following shareholders (acting in their own name or in their capacity as nominees for other investors or beneficial owners) were registered in the share register with 3% or more of the total share capital of UBS AG: Chase Nominees Ltd., London (11.73%); GIC Private Limited, Singapore (6.39%); the US securities clearing organisation DTC (Cede & Co.) New York, "The Depository Trust Company" (5.89%); and Nortrust Nominees Ltd., London (3.75%).

UBS holds UBS AG shares primarily to hedge employee share and option participation plans. A smaller number is held by the Investment Bank for hedging related derivatives and for market-making in UBS AG shares. As of 31 December 2013, UBS held a stake of UBS AG's shares, which corresponded to less than 3% of UBS AG's total share capital. On 12 October 2013, UBS AG notified in accordance with the Swiss Stock Exchange Act a reduction in its disposal positions to 274,501,778 (from 422,236,769 on 31 December 2012) voting rights, corresponding to 7.16% of the total voting rights of UBS AG, due to the cancellation of the warrants that had been granted to the Swiss National Bank ("**SNB**") in connection with the transfer of certain illiquid securities and other positions to a fund owned and controlled by the SNB.

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

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

7.1 ***Historical Annual Financial Information***

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

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

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

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

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

The annual financial reports form an essential part of UBS AG's reporting. They include the audited consolidated financial statements of UBS Group, prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and the audited financial statements of UBS AG (Parent Bank), prepared in order to meet

Swiss regulatory requirements and in compliance with Swiss Federal Banking Law. The Financial information section of the annual reports also includes certain additional disclosures required under US Securities and Exchange Commission regulations. The annual reports also include discussions and analysis of the financial and business results of UBS, its business divisions and the Corporate Center.

7.2 *Auditing of Historical Annual Financial Information*

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

There are no qualifications in the auditors' reports on the audited financial statements for the years ended on 31 December 2011 and 31 December 2012, which are incorporated by reference into this document.

7.3 *Interim Financial Information*

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

7.4 *Litigation, Regulatory and Similar Matters*

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

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

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

In the case of certain matters below, UBS states that it has established a provision, and for the other matters it makes no such statement. When UBS makes this statement and it expects disclosure of the amount of a provision to prejudice seriously its position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably estimable outflow, UBS does not disclose that amount. In some cases UBS is subject to confidentiality

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

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 15a to the unaudited consolidated financial statements included in UBS AG's fourth quarter 2013 report. It is not practicable to provide an aggregate estimate of liability for UBS's litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require UBS to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although UBS therefore cannot provide a numerical estimate of the future losses that could arise from the class of litigation, regulatory and similar matters, it can confirm that it believes that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions.

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" and "Risk management and control" sections of UBS AG's fourth quarter report.

Provisions for litigation, regulatory and similar matters by segment

<i>CHF million</i>	Wealth Management	Wealth Management Americas	Retail & Corporate	Global Asset Management	Investment Bank	CC – Core Functions	CC – Non-core and Legacy Portfolio	UBS
Balance as of 31 December 2012	130	170	29	7	28	338	732	1,432
Balance as of 30 September 2013	176	162	33	2	13	531	818	1,736
Increase in provisions recognised in the income statement	15	21	45	0	10	0	12	103
Release of provisions recognised in the income statement	(9)	(8)	0	0	0	(34)	(2)	(53)
Provisions used in conformity with designated purpose	(10)	(117)	(3)	0	(1)	(3)	(8)	(143)
Reclassifications	(7)	0	7	0	0	0	0	0
Foreign currency translation / unwind of discount	0	(3)	0	0	0	(5)	(12)	(21)

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Balance as of 31 December 2013	165	56	82	3	22	488	808	1,622
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¹ Provisions, if any, for the matters described in (i) item 5 of this section are recorded in Wealth Management, (ii) items 2 and 8 of this section are recorded in Wealth Management Americas, (iii) item 12 of this section is recorded in the Investment Bank, (iv) items 4, 9 and 11 of this section are recorded in Corporate Center – Core Functions and (v) items 3 and 7 of this section are recorded in Corporate Center – Non-core and Legacy Portfolio. Provisions for the matters described in items 1 and 10 of this section are allocated between Wealth Management and Retail & Corporate, and provisions for the matters described in item 6 of this section are allocated between the Investment Bank and Corporate Center – Non-core and Legacy Portfolio.

1. Inquiries regarding cross-border wealth management businesses

Following the disclosure and the settlement of the US cross-border matter, tax and regulatory authorities in a number of countries have made inquiries and served requests for information located

in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. As a result of investigations in France, in May and June 2013, respectively, UBS (France) S.A. and UBS AG were put under formal examination ("**mise en examen**") for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance ("**témoïn assisté**") regarding the laundering of the proceeds of tax fraud and of banking and financial solicitation by unauthorised persons. In June 2013, the French banking supervisory authority's disciplinary commission reprimanded UBS (France) S.A. for having had insufficiencies in its control and compliance framework around its cross-border activities and "know your customer" obligations. It imposed a penalty of EUR 10 million, and a provision in that amount is reflected on UBS's balance sheet at 31 December 2013. In Germany, several authorities have been conducting investigations against UBS Deutschland AG, UBS AG, and against certain employees of UBS AG concerning certain matters relating to the cross-border business. UBS is cooperating with these authorities within the limits of financial privacy obligations under Swiss and other applicable laws. Settlement discussions have commenced with respect to one of the German investigations.

2. Lehman principal protection notes

From March 2007 through September 2008, UBS Financial Services Inc. (UBSFS) sold approximately USD 1 billion face amount of structured notes issued by Lehman Brothers Holdings Inc. (Lehman), a majority of which were referred to as "principal protection notes," reflecting the fact that while the notes' return was in some manner linked to market indices or other measures, some or all of the investor's principal was an unconditional obligation of Lehman as issuer of the notes. Based on its role as an underwriter of Lehman structured notes, UBSFS was named as a defendant in a putative class action asserting violations of disclosure provisions of the federal securities laws. In August 2013, UBSFS agreed to a proposed USD 120 million settlement of the case, which was approved by the Court in December 2013. Previously, certain of the other underwriter defendants and the former officers and directors of Lehman reached separate settlements regarding the same case. UBSFS also has been named in numerous individual civil suits and customer arbitrations, a small number of which were pending as of 31 December 2013. The individual customer claims, some of which have resulted in awards payable by UBSFS, relate primarily to whether UBSFS adequately disclosed the risks of these notes to its customers.

UBS's balance sheet at 31 December 2013 reflected a provision with respect to pending arbitration 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 recognised.

3. 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 securitisation trusts. In this manner, from 2004 through 2007, UBS RESI sponsored approximately USD 80 billion in RMBS, based on the original principal balances of the securities issued.

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

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

Securities lawsuits concerning disclosures in RMBS offering documents: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits related to approximately USD 13 billion in original face amount of RMBS underwritten or issued by UBS. Some of the lawsuits are in their early stages and have not advanced beyond the motion to dismiss phase; others are in varying stages of discovery. Of the USD 13 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 3 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitisation trust and made representations and warranties about those loans (UBS-sponsored RMBS). The remaining USD 10 billion of RMBS to which these cases relate was issued by third parties in securitisations in which UBS acted as underwriter (third-party RMBS).

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights. A class action settlement announced in April 2013 by a third-party issuer received final approval by the district court in December 2013. The settlement, which is subject to appeal, reduced the original face amount of RMBS at issue in these cases from USD 37 billion to USD 13 billion, and the original face amount of RMBS at issue in cases involving third-party issuers from USD 34 billion to USD 10 billion, as noted above. The third-party issuer will fund the settlement at no cost to UBS. In January 2014, certain objectors to the settlement filed a notice of appeal from the district court's approval of the settlement.

In 2012 a federal court in New Jersey dismissed with prejudice on statute of limitations grounds a putative class action lawsuit that asserted violations of the federal securities laws against various UBS entities, among others, in connection with USD 2.6 billion in original face amount of UBS-sponsored RMBS. In September 2013, the US Court of Appeals for the Third Circuit affirmed the district court's dismissal with prejudice, and in October 2013 the Court of Appeals denied plaintiffs' petition for en banc review.

Loan repurchase demands related to sales of mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitisation trust. UBS has been notified by certain institutional purchasers and insurers of mortgage loans and RMBS of their contention that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. The table below summarises repurchase demands received by UBS and UBS's repurchase activity from 2006 through 28 January 2014, and includes purported demands received by UBS in the fourth quarter of 2013 seeking repurchase of approximately 431 loans with an original principal balance of approximately USD 247 million. Approximately one-third of the 431 loans had previously been put back to UBS by other counterparties and were already included in the table in previous quarters. In the table, repurchase demands characterised as Demands resolved in

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litigation and Demands rescinded by counterparty are considered to be finally resolved. Repurchase demands in all other categories are not finally resolved.

Loan repurchase demands by year received – original principal balance of loans¹

<i>USD million</i>	<u>2006-2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014, through 28 January</u>	<u>Total</u>
Resolved demands								
Actual or agreed loan repurchases / make whole payments by UBS	12	1						13
Demands rescinded by counterparty	110	104	19	304	237			774
Demands resolved in litigation	1	21						21
Demands expected to be resolved by third parties								
Demands resolved or expected to be resolved through enforcement of indemnification rights against third-party originators		77	2	45	128	99		351
Demands in dispute								
Demands in litigation			346	732	1,041			2,118
Demands in review by UBS				2	2	3		8
Demands rebutted by UBS but not yet rescinded by counterparty		1	2	1	17	515		537
Total	122	205	368	1,084	1,424	618	0	3,822

¹ Loans submitted by multiple counterparties are counted only once.

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

In most instances in which UBS would be required to repurchase loans due to misrepresentations, UBS would be able to assert demands against third-party loan originators who provided representations when selling the related loans to UBS. However, many of these third parties are insolvent or no longer exist. UBS estimates that, of the total original principal balance of loans sold or securitised by UBS from 2004 through 2007, less than 50% was purchased from surviving third-party originators. In connection with approximately 60% of the loans (by original principal balance) for which UBS has made payment or agreed to make payment in response to demands received in 2010, UBS has asserted indemnity or repurchase demands against originators. Since 2011, UBS has advised certain surviving originators of repurchase demands made against UBS for which UBS would be entitled to indemnity, and has asserted that such demands should be resolved directly by the originator and the party making the demand. Of the loan repurchase demands received in the fourth quarter of 2013 noted above, UBS has asserted its indemnification rights against surviving third-party originators in connection with 149 loans with an original principal balance of USD 92 million.

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

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: In 2012, certain RMBS trusts filed an action in the Southern District of New York (Trustee Suit) seeking to enforce UBS RESI's obligation to repurchase loans with an original principal balance of approximately USD 2 billion for which Assured Guaranty Municipal Corp.

(Assured Guaranty), a financial guaranty insurance company, had previously demanded repurchase. The case is in discovery. Related litigation brought by Assured Guaranty was resolved in May 2013. 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. At this time, UBS does not expect that it will be required to make payment for the majority of loan repurchase demands at issue in the Trustee Suit for at least the following reasons: (1) UBS reviewed the origination file and/or servicing records for the loan and concluded that the allegations of breach of representations and warranties are unfounded, or (2) a surviving originator is contractually liable for any breaches of representations and warranties with respect to loans that it originated. UBS has indemnification rights in connection with approximately half of the USD 2 billion in original principal balance of loans at issue in this suit (reflected in the "Demands in litigation" category in the table above).

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

In December 2013, Residential Funding Company LLC (RFC) filed a complaint in New York Supreme Court against UBS RESI asserting claims for breach of contract and indemnification in connection with loans purchased from UBS RESI with an original principal balance of USD 460 million that were securitised by an RFC affiliate. This is the first case filed against UBS seeking damages allegedly arising from the securitisation of whole loans purchased from UBS. Damages are unspecified.

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

As reflected in the table below, UBS's balance sheet at 31 December 2013 reflected a provision of USD 807 million with respect to matters described in this item 3. 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 recognised.

UBS has received requests from the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) and the SEC for information relating to its practices in connection with purchases and sales of RMBS and commercial mortgage-backed securities. UBS is cooperating with the authorities in these matters, which are in an early stage. Numerous other banks reportedly have received similar requests.

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

USD million

Balance as of 31 December 2012	658
Balance as of 30 September 2013	803
Increase in provision recognised in the income statement	8
Release of provision recognised in the income statement	0
Provision used in conformity with designated purpose	(5)
Balance as of 31 December 2013	807

4. Claims related to UBS disclosure

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

In 2012, a consolidated complaint was filed in a putative securities fraud class action pending in federal court in Manhattan against UBS AG and certain of its current and former officers relating to the unauthorised trading incident that occurred in the Investment Bank and was announced in September 2011. The lawsuit was filed on behalf of parties who purchased publicly traded UBS securities on any US exchange, or where title passed within the US, during the period 17 November 2009 through 15 September 2011. In December 2013, the district court granted UBS's motion to dismiss the complaint in its entirety. Plaintiffs have filed a notice of appeal.

5. Madoff

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

filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals have been filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In the US, the BMIS Trustee has filed claims against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in 2010 against 23 defendants, including UBS entities, the Luxembourg and offshore funds concerned and various individuals, including current and former UBS employees. The total amount claimed against all defendants in this action was not less than USD 2 billion. A second claim was filed in 2010 against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants was not less than USD 555 million. Following a motion by UBS, in 2011 the District Court dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In June 2013, the Second Circuit Court of Appeals rejected the BMIS Trustee's appeal against that ruling and upheld the District Court's decision. The BMIS Trustee has sought leave to appeal to the US Supreme Court, which has invited the Solicitor General of the United States to file a brief expressing the views of the United States as to whether review should be granted. 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.

6. Transactions with Italian public sector entities

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

Derivative transactions with the Regions of Calabria, Tuscany, Lombardy, Lazio and Campania, and the City of Florence have also been called into question or become the subject of legal proceedings and claims for damages and other awards. In 2012, UBS AG and UBS Limited settled all civil disputes with the Regions of Tuscany, Lombardy and Lazio without any admission of liability. In August 2013, a settlement of all civil and administrative disputes was reached with the City of Florence. Provisions were booked in respect of these settlements.

7. Kommunale Wasserwerke Leipzig GmbH ("KWL")

In 2006 and 2007, KWL entered into a series of Credit Default Swap ("CDS") transactions with bank swap counterparties, including UBS. UBS entered into back-to-back CDS transactions with the other counterparties, Depfa Bank plc (Depfa) and Landesbank Baden-Württemberg ("LBBW"), in relation to their respective swaps with KWL. As a result of the KWL CDS transactions and the back-to-back CDS transactions with Depfa and LBBW, UBS and UBS

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Limited are owed a total amount of approximately USD 319.8 million, plus interest, which remains unpaid. Specifically, under the CDS contracts between KWL and UBS, the last of which were terminated by UBS in 2010, a net sum of approximately USD 137.6 million, plus interest, has fallen due from KWL but not been paid. Earlier in 2010, UBS issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transaction between KWL and UBS is valid, binding and enforceable as against KWL.

The English court ruled in 2010 that it has jurisdiction and will hear the proceedings and UBS issued a further claim seeking declarations concerning the validity of its early termination of the remaining CDS transactions with KWL. KWL withdrew its appeal from that decision and the civil dispute is now proceeding before the English court. UBS has added its monetary claim to the proceedings. KWL is defending against UBS's claims and has served a counterclaim which also joins UBS Limited and Depfa to the proceedings. As part of its assertions, KWL claims damages of at least USD 68 million in respect of UBS's termination of some of the CDS contracts, whilst disputing that any monies are owed to UBS pursuant to another CDS contract. UBS, UBS Limited and Depfa are defending against KWL's counterclaims, and Depfa has asserted additional claims against UBS and UBS Limited. The trial is due to start in April 2014.

In 2010, KWL issued proceedings in Leipzig, Germany against UBS, Depfa and LBBW, claiming that the swap transactions are void and not binding on the basis of KWL's allegation that KWL did not have the capacity or the necessary internal authorisation to enter into the transactions and that the banks knew this. Upon and as a consequence of KWL withdrawing its appeal on jurisdiction in England, KWL also withdrew its civil claims against UBS and Depfa in the German courts, and no civil claim will proceed against either of them in Germany. The proceedings brought by KWL against LBBW have continued in Leipzig, and in June 2013 the court in Leipzig ruled in LBBW's favor. KWL has filed an appeal against that ruling, which will take place in spring 2014. The Leipzig court has also ruled that it is for the London court and not the Leipzig court to determine the validity and effect of a third party notice served by LBBW on UBS in the Leipzig proceedings.

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

In 2011, the former managing director of KWL and two financial advisers were convicted on criminal charges related to certain KWL transactions, including swap transactions with UBS and other banks. Following further criminal proceedings brought against them in Dresden relating to the same transactions, they were each convicted of embezzlement in December 2013 and given longer sentences. They have indicated that they will appeal.

Since 2011, the SEC has been conducting an investigation focused on, among other things, the suitability of the KWL transactions, and information provided by UBS to KWL. UBS has provided documents and testimony to the SEC and is continuing to cooperate with the SEC.

8. Puerto Rico

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (System) against over 40 defendants, including UBS Financial Services Inc. of Puerto Rico (UBS PR) and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately three billion dollars of bonds by the System in 2008 and sought damages of over USD 800 million. UBS is named in connection with its underwriting and consulting services. In March 2013, the case was dismissed by the Puerto Rico Court of First Instance on the grounds that plaintiffs did not have standing to bring the claim. That dismissal was overturned by the Puerto Rico Court of

Appeals in September 2013, and UBS is appealing that decision to the Supreme Court of Puerto Rico. Also, in October 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS PR executives following a hearing that took place in late 2012, finding no violations. The charges had stemmed from the SEC's investigation of UBS PR's sale of closed-end funds in 2008 and 2009, which UBS PR settled in May 2012. Additionally, declines in Puerto Rico municipal bond and closed-end fund prices since August 2013 have led to regulatory inquiries and customer complaints by clients in Puerto Rico who own those securities. An internal review also disclosed that certain clients, many of whom acted at the recommendation of one financial advisor, invested proceeds of non-purpose loans in closed-end fund securities in contravention of their loan agreements. UBSFS also has received a request for information regarding sales of Puerto Rico municipal bonds to Massachusetts residents from the Massachusetts Securities Division.

9. LIBOR, foreign exchange, and benchmark rates

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

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, and CHF 59 million in disgorgement to FINMA. Under a non-prosecution agreement (NPA) that UBS entered into with the DOJ, UBS agreed to pay a fine of USD 500 million. Pursuant to a separate plea agreement between the DOJ and UBS Securities Japan Co. Ltd. (UBSSJ), UBSSJ entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. The NPA required UBS to pay the USD 500 million fine to DOJ after the sentencing of UBSSJ, and provides that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. At the sentencing hearing held in September 2013, the court approved the proposed plea agreement and imposed a USD 100 million fine against UBSSJ, as agreed to by the DOJ and UBSSJ under the plea agreement. Since the sentencing, UBS has paid a fine of USD 400 million to the DOJ, and UBSSJ has paid the USD 100 million fine imposed by the sentencing court. The conduct described in the various settlements and the FINMA order includes certain UBS personnel: engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions; colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions; and giving inappropriate directions to UBS submitters that were in part motivated by a desire to avoid unfair and negative market and media perceptions during the financial crisis. The benchmark interest rates encompassed by one or more of these resolutions include Yen LIBOR, GBP LIBOR, CHF LIBOR, Euro LIBOR, USD LIBOR, EURIBOR (Euro Interbank Offered Rate) and Euroyen TIBOR (Tokyo Interbank Offered Rate). UBS has ongoing obligations to cooperate with authorities with which it has reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions. Investigations by the CFTC and other government authorities remain ongoing notwithstanding these resolutions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ, and the Swiss Competition Commission (WEKO), in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. WEKO has also granted UBS

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

In December 2013, the European Commission (EC) announced a decision adopted in the Commission's Yen Interest Rate Derivatives (YIRD) investigation, under which UBS has received full immunity from fines for disclosing to the Commission the existence of infringements relating to YIRD.

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

In December 2013, UBS entered into an enforceable undertaking in relation to an investigation by the Australian Securities and Investments Commission (ASIC) into conduct relating to Australian Bank Bill Swap Rate (BBSW) submissions. An independent expert engaged by UBS at ASIC's request concluded that, to the extent there may have been any impact of such conduct on the market as a whole, it would have been insignificant. The enforceable undertaking requires UBS to ensure that its participation in relation to the setting of Australian interest rate benchmarks upholds the integrity and reliability of those benchmarks and is in accordance with its obligations under the CFTC order. UBS also agreed to make a voluntary contribution of AUD 1 million to fund independent financial literacy projects in Australia. ASIC has the power to investigate, conduct further surveillance or pursue criminal prosecution of UBS or its representatives in relation to any contravention. ASIC acknowledged UBS's cooperation and the fact that it was the first bank to report this conduct to it. ASIC's inquiries in relation to the BBSW rate set are ongoing.

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

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 and other jurisdictions against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-

based derivatives linked directly or indirectly to US dollar LIBOR, Yen LIBOR, Euroyen TIBOR and EURIBOR. Also pending are actions asserting losses related to various products whose interest rate was linked to US dollar LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including LIBOR, Euroyen TIBOR or EURIBOR rates and seek unspecified compensatory and other damages, including treble and punitive damages, under varying legal theories that include violations of the US Commodity Exchange Act, the federal racketeering statute, federal and state antitrust and securities laws and other state laws. In March 2013, a federal court in New York dismissed the federal antitrust and racketeering claims of certain US dollar LIBOR plaintiffs and a portion of their claims brought under the Commodity Exchange Act (CEA) and state common law. In August 2013, the same court denied the parties' requests for reconsideration and plaintiffs' motion for interlocutory appeal and to amend the complaints to include additional antitrust and Commodity Exchange Act allegations. It granted certain plaintiffs permission to assert claims for unjust enrichment and breach of contract. Motions to dismiss these unjust enrichment and breach of contract claims are pending, as is a renewed motion to dismiss by UBS and other defendants that seeks dismissal of further CEA claims. Certain plaintiffs have also appealed the dismissal of their antitrust claims, but in October 2013 the appellate court denied these appeals as premature, without prejudice to bringing the appeals again after final disposition of the LIBOR actions. UBS and other defendants in other lawsuits including the one related to Euroyen TIBOR have filed motions to dismiss.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, UBS's balance sheet at 31 December 2013 reflected a provision of an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognised.

Foreign exchange-related regulatory matters: Following an initial media report in June 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business. Since then, various authorities reportedly have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, WEKO, the DOJ, the CFTC, and the FCA. UBS and other financial institutions have received requests from various authorities relating to their foreign exchange businesses, and UBS is cooperating with the authorities. UBS has taken and will take appropriate action with respect to certain personnel as a result of its review, which is ongoing.

Foreign exchange-related civil litigation: Several putative class actions have been filed since November 2013 in federal court against UBS and other banks. These actions are on behalf of putative classes of persons who engaged in foreign currency transactions with the defendants. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. The defendants (including UBS) have not yet filed responsive pleadings.

10. Swiss retrocessions

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

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

It is expected that the Supreme Court decision will result in a significant number of client requests for UBS to disclose and potentially surrender retrocessions. Client requests are being assessed on a case-by-case basis. Considerations to be taken into account when assessing these

cases include, among others, the existence of a discretionary mandate and whether or not the client documentation contained a valid waiver with respect to distribution fees.

UBS's balance sheet at 31 December 2013 reflected a provision with respect to matters described in this item 10 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 recognised.

11. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. (Pactual) by UBS to BTG Investments, LP (BTG), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately BRL 2.5 billion, including interest and penalties, 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 or will be challenged in administrative proceedings. BTG has also provided notice to UBS of several additional Pactual-related inquiries by the Brazilian tax authorities that relate to the period of UBS's ownership of Pactual, but involving substantially smaller amounts. In November and December 2013, approximately BRL 128 million in tax claims relating to the period for which UBS has indemnification obligations were submitted for settlement through amnesty programs announced by the Brazilian government in October 2013.

UBS's balance sheet at 31 December 2013 reflected a provision with respect to matters described in this item 11 in an amount that UBS believes to be appropriate under the applicable accounting standard. 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 recognised.

12. Matters relating to the CDS market

In July 2013 the European Commission ("EC") issued a Statement of Objections against thirteen credit default swap (CDS) dealers including UBS, as well as data service provider Markit and the International Swaps and Derivatives Association (ISDA). The Statement of Objections broadly alleges that the dealers infringed EU antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and 2009. UBS has submitted its response to the Statement of Objections. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. Since May 2013, several putative class action complaints have been filed in the Northern District of Illinois and the Southern District of New York against twelve dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act. The complaints allege that the dealers unlawfully exercised collective control over Markit and other industry organisations to seek to ensure that CDS continued to trade over-the-counter rather than on an exchange platform. Plaintiffs seek unspecified trebled compensatory damages, among other relief. In October 2013, the Judicial Panel on Multidistrict Litigation consolidated all of the pending CDS actions for pretrial purposes in the Southern District of New York.

7.5 **Material Contracts**

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

8. **Share Capital**

Description of the Issuer

As reflected in its Articles of Association most recently registered with the Commercial Register of Zurich and the Commercial Register of Basel-City, UBS AG has (i) fully paid and issued share capital of CHF 383,525,023.30, divided into 3,835,250,233 registered shares with a par value of CHF 0.10 each (section 4), (ii) no authorised capital and (iii) conditional share capital in the amount of CHF 52,551,099.20, comprising 525,510,992 registered shares with a par value of CHF 0.10 each (section 4a).

TAXATION

The following is a general description of certain tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Switzerland of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Listing Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Switzerland

The following discussion is a summary of certain material Swiss tax considerations based on the legislation as of the date of this Listing Prospectus. It does not aim to be a comprehensive description of all the Swiss tax considerations that may be relevant for a decision to invest in Notes. The tax treatment for each investor depends on the particular situation. All investors are advised to consult with their professional tax advisors as to the respective Swiss tax consequences of the purchase, ownership, disposition, lapse, exercise or redemption of Notes in light of their particular circumstances.

Withholding Tax

Payments by the Issuer or the Substitute Issuer, of interest on, and repayment of principal of, the Notes, will not be subject to Swiss federal withholding tax.

On 24 August 2011, the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent in Switzerland to deduct Swiss withholding tax at a rate of 35 per cent. on any payment of interest in respect of a debt security to an individual resident in Switzerland or to a person resident outside of Switzerland. If this legislation or similar legislation were enacted and an amount of, or in respect of, Swiss withholding tax were to be deducted or withheld from that payment, it is possible that neither the Issuer nor the Substitute Issuer nor any paying agent nor any other person would pursuant to the terms of the Notes be obliged to pay additional amounts with respect to any debt security as a result of the deduction or imposition of such withholding tax.

Stamp Taxes

The issue and redemption of Notes by the Issuer or the Substitute Issuer are not subject to Swiss federal stamp duty on the issue of securities.

Purchases or sales of Notes with a maturity in excess of 12 months where a Swiss domestic bank or a Swiss domestic securities dealer (as defined in the Swiss federal stamp duty act) is a party, or acts as an intermediary, to the transaction may be subject to Swiss federal stamp duty on dealings in securities at a rate of up to 0.15 per cent. of the purchase price of the Notes. Where both the seller and the purchaser of the Notes are non-residents of Switzerland or the Principality of Liechtenstein, no Swiss federal stamp duty on dealing in securities is payable.

Income Taxation on Principal or Interest

(i) Notes held by non-Swiss holders

Payments by the Issuer or the Substitute Issuer of interest and repayment of principal to, and gain realised on the sale or redemption of Notes by, a holder of Notes who is not a resident of Switzerland and who during the relevant taxation year has not engaged in a trade or business through a permanent establishment or a fixed place of business in Switzerland to which the Notes are attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax.

(ii) Notes held by Swiss holders as private assets

Individuals who reside in Switzerland and who hold the Notes as private assets are required to include all payments of interest in respect of the Notes by the Issuer or the Substitute Issuer, in their personal income tax return and will be taxable on any net taxable income (including the payments of interest in respect of the Notes) for the relevant tax period. Insofar as such payments are consideration for the Contingent Write-down (the respective amount will be determined by the Federal Tax Administration), they will be considered a tax-free capital gain. Any capital gain or loss realised on the sale or other disposition of such Notes or any loss realised following a Contingent Write-down will be considered a tax-free capital gain respectively a non-tax-deductible loss.

(iii) Notes held as Swiss business assets

Individuals who hold Notes as part of a business in Switzerland and Swiss-resident corporate taxpayers and corporate taxpayers residing abroad holding Notes as part of a permanent establishment or fixed place of business in Switzerland are required to recognise the payments of interest and any capital gain or loss realised on the sale or other disposition of such Notes or following a Contingent Write-down in their income statement for the respective tax period and will be taxable on any net taxable earnings for such tax period. The same taxation treatment also applies to Swiss-resident individuals who, for income tax purposes, are classified as "professional securities dealers" for reasons of, *inter alia*, frequent dealings and leveraged transactions in securities.

Foreign Final Withholding Tax

On 1 January 2013 treaties on final withholding taxes between the Switzerland and the United Kingdom and between Switzerland and Austria entered into force. The treaties, *inter alia*, require a Swiss paying agent to levy final withholding tax at specified rates in respect of an individual resident in the United Kingdom or resident in Austria, as applicable, on interest or capital gain paid, or credited to an account, relating to the Notes. The final withholding tax substitutes the United Kingdom or Austrian income tax, as applicable, on such income of interest or capital gain. If such final withholding tax is levied, Swiss withholding tax can be reclaimed by the Swiss paying agent on account of the holder of the Notes. Such a person may, however, in lieu of the final withholding tax, opt for voluntary disclosure of the interest or capital income to the tax authority of his or her country of residency. Note that Switzerland may conclude similar treaties with other European countries, negotiations currently being conducted with Greece and Italy.

EU Savings Tax

On 26 October 2004, the European Community and Switzerland entered into an agreement on the taxation of savings income pursuant to which Switzerland will adopt measures equivalent to those of the European Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments. The agreement came into force as of 1 July 2005.

In accordance with this agreement respectively the Swiss law implementing this agreement, Swiss paying agents have to withhold tax at a rate of 35 per cent. on certain interest payments to a beneficial owner who is an individual and resident of an EU member state, with the option of the individual to have the paying agent and Switzerland provide to the tax authorities of the EU member state the details of the interest payments in lieu of the withholding. [Currently, payments under the Notes are not subject to such withholding tax.]⁴

⁴ Subject to confirmation by tax ruling.

SUBSCRIPTION AND SALE

[•], [•] and UBS Limited (the "**Managers**") have, in a subscription agreement dated [•] 2014 (the "**Subscription Agreement**") and made between the Issuer and the Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of [•] per cent. of their principal amount plus accrued interest, if any, in respect thereof and less the commission. The Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United Kingdom

Each Manager has further represented, warranted and undertaken that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, US persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Notes are subject to US tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by US tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, US persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, US persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**Financial Instruments and Exchange Act**"). Accordingly, each Manager has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

Singapore

Each Manager has acknowledged that this Listing Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented,

Subscription and Sale

warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase nor will it offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, nor has it circulated or distributed nor will it circulate or distribute this Listing Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor as defined in Section 4A of the SFA) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- (2) where no consideration is or will be given for the transfer;
- (3) where the transfer is by operation of law;
- (4) as specified in Section 276(7) of the SFA; or
- (5) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

Hong Kong

Each Manager has represented, warranted and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a 'prospectus' as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

People's Republic of China

The Managers have acknowledged that the Listing Prospectus, or the Notes or any material or information contained or incorporated by reference in this Listing Prospectus relating to the Notes, have not been, and will not be submitted to become, approved/verified by or registered with any relevant government authorities under the PRC law. Accordingly the Notes may not be offered or sold directly or

Subscription and Sale

indirectly in the PRC and this Listing Prospectus may not be supplied to the public in the PRC or used in connection with any offer for subscription or sale of the Notes in the PRC directly or indirectly. The material or information contained or incorporated by reference in this Listing Prospectus relating to the Notes does not constitute an offer to sell or the solicitation of an offer to buy any securities by any person in the PRC. The Notes may only be offered or sold to PRC investors that are authorised to engage in the purchase of Notes of the type being offered or sold.

Each Manager has represented, warranted and agreed to and with UBS Group that it has not made, and will not make, any offers, promotions, solicitations for sales of or for, as the case may be, any Notes in the PRC, except where permitted by the China Securities Regulatory Commission and other competent authorities or where the activity otherwise is permitted under the PRC law. PRC investors should note that they themselves are responsible for informing themselves about observing all legal and regulatory restrictions, obtaining all relevant government regulatory approvals/licenses, verifications and/or registrations from all relevant governmental authorities (including but not limited to the China Securities Regulatory Commission and/or the State Administration of Foreign Exchange), and complying with all the applicable PRC regulations, including but not limited to any relevant PRC foreign exchange regulations and/or foreign investment regulations.

Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in the Republic of Italy in a solicitation to the public, and that sales of the Notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Any offer, sale or delivery of the Notes or distribution of copies of this Listing Prospectus or any other document relating to the Notes in the Republic of Italy must be:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, Legislative Decree No. 58 of 24 February 1998 and, CONSOB Regulation No. 16190 of 29 October 2007 (in each case, as amended) and any other applicable laws and regulations; and
- (b) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

EEA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**"), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Listing Prospectus to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) *Qualified investors*: to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) *Fewer than 100 offerees*: to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Manager or Managers nominated by the Issuer for any such offer; or
- (c) *Other exempt offers*: in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

General

Each Manager has represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Listing Prospectus or any other offering material relating to the Notes. Persons into whose hands this Listing Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Listing Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. Listing

The Notes have been provisionally admitted to trading on the SIX Swiss Exchange from [•] 2014. The last trading day, subject to an early redemption, is expected to be [•]. Application has been made for the Notes to be listed on the SIX Swiss Exchange.

2. Authorisations

The creation and issue of the Notes has been authorised by the Group Chief Financial Officer of the Issuer dated [•] 2014.

3. Material Change

Save as disclosed in this Listing Prospectus, there has been no material change in the Issuer's assets and liabilities, financial position or profits and losses since 31 December 2013.

4. Legal and Arbitration Proceedings

Save as disclosed in this Listing Prospectus, there are no court, arbitral or administrative proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which are of material importance to the Issuer's assets and liabilities or profits and losses.

5. Clearing

The Notes have been accepted for clearance through SIS. The ISIN is [•], the common code is [•] and the Swiss Security Number is [•].

6. Auditors

The UBS Group's consolidated annual financial statements and UBS AG's annual financial statements have been audited without qualification for the years ended 31 December 2012 and 2011 by Ernst & Young Ltd., Aeschengraben 9, CH-4002, Basel, Switzerland ("EY"). EY are members of the Institute of Certified Accountants and Tax Consultants based in Zurich, Switzerland.

On 2 May 2013, the AGM of UBS AG re-elected EY as auditors for the Financial Statements of UBS AG and the Consolidated Financial Statements of the UBS Group for a further one year term.

7. Managers transacting with the Issuer

Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. Such investments and securities activities may involve securities and/or instruments of the Issuer or Issuer's affiliates. For the purpose of this paragraph the term "affiliates" include also parent companies.

8. **Foreign Language**

The language of the Listing Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them.

9. **Listing Prospectus**

Copies of this Listing Prospectus (including the documents incorporated by reference) are available during normal business hours at UBS AG, Zurich, Prospectus Library, Switzerland (phone +41 44 239 47 03, fax +41 44 239 69 14, email: swiss-prospectus@ubs.com).

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[•]

[•]

CO-LEAD MANAGERS

[•]

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