

OFFERING CIRCULAR

LISTING VERSION



UBS AG,  
*acting through its Stamford branch*

**USD 2,000,000,000**  
**Tier 2 Subordinated Notes due 2022**

This offering circular relates to the issue of USD 2,000,000,000 Tier 2 Subordinated Notes due 2022 (collectively, the “Notes,” and individually, a “Note”) by UBS AG, acting through its Stamford branch (the “**Issuer**”). The issue price of the Notes is 100.00 percent of their principal amount. Interest will accrue on the principal amount of the Notes from and including August 17, 2012 (the “**Issue Date**”) to (but excluding) August 17, 2022 (the “**Maturity Date**”) at a rate of 7.625 percent per annum. Interest will be payable semi-annually in arrears on February 17 and August 17 in each year, commencing on February 17, 2013. The Notes will be issued in denominations of \$250,000 and integral multiples of \$1,000 in excess of \$250,000.

Unless previously redeemed or purchased and cancelled or subjected to a Contingent Write-Down (as defined below), the Notes will mature on August 17, 2022. Subject to the satisfaction of the conditions described in this offering circular 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) upon the occurrence of a Tax Event; or (b) upon the occurrence of a Regulatory Event (each as defined below); or (ii) at 101 percent 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 below), all as described below.

**If either a Trigger Event or a Viability Event (each as defined below) occurs, a Contingent Write-Down will occur on the relevant Write-Down Date (as defined below) 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 under “Description of Notes–Contingent Write-Down” below.**

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer, as more particularly described under “Description of Notes–Status and Subordination” below.

The Notes will be represented by one or more global notes (collectively, the “**Global Notes**,” and individually, the “**Global Note**”) negotiable by endorsement. The Global Notes will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in registered, definitive form. See “Book Entry, Delivery and Form of Securities” below. The Notes will be governed by Swiss law.

This offering circular has been approved by the Central Bank of Ireland (the “**Central Bank**”), as competent authority under Directive 2003/71/EC (the “**Prospectus Directive**”). The Central Bank only approves this offering circular as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list and trading on its regulated market. This offering circular constitutes a prospectus for the purposes of the Prospectus Directive.

The Notes have not been registered with the United States Securities and Exchange Commission (the “**SEC**”) and are offered pursuant to an exemption from registration under Section 3(a)(2) of the United States Securities Act of 1933, as amended (the “**Securities Act**”). The fiscal agency agreement under which the Notes are issued is not, and is not required to be, qualified under the United States Trust Indenture Act of 1939, as amended (the “**Trust Indenture Act**”).

**Neither the SEC nor any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this offering circular. Any representation to the contrary is a criminal offense.**

**Investment in the Notes involves risks. See “Risk Factors” beginning on page 1 of this offering circular to read about certain risk factors you should consider before investing in the Notes.**

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The Notes are direct and unsecured obligations of the Issuer. The Notes are not deposit liabilities of UBS AG and are not insured or guaranteed by the United States Federal Deposit Insurance Corporation or any other governmental agency of the United States, Switzerland or any other jurisdiction.

The Issuer may sell the Notes directly or through one or more underwriters or dealers, including the underwriters listed below. The underwriters are not required to sell any particular amount of the Notes.

We expect delivery of the Notes will be made through the facilities of The Depository Trust Company (“**DTC**”) and its participants including Clearstream Banking S.A. (“**Clearstream Luxembourg**”) and Euroclear Bank S.A./N.V. (“**Euroclear**”) on or about August 17, 2012.

Global Coordinator and Arranger

**UBS INVESTMENT BANK**

Joint Bookrunners

**UBS Investment Bank**  
**Citigroup**  
**J.P. Morgan**  
**RBS**

**BofA Merrill Lynch**  
**Goldman, Sachs & Co.**  
**Morgan Stanley**  
**Wells Fargo Securities**

The date of this offering circular is August 17, 2012.

In the United Kingdom, this offering circular is for distribution only to persons who (i) have professional experience in matters relating to investments who fall within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Order**”) or (ii) are high net worth entities falling within article 49(2)(a)-(d) of the Order (all such persons together being referred to as “**Relevant Persons**”). In the United Kingdom, this offering circular and any of its contents are directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. In the United Kingdom, any investment or investment activity to which this offering circular relates is available only to Relevant Persons and will be engaged in only with Relevant Persons.

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## **Certain Terms**

In this offering circular:

- references to “Issuer” and “we” mean UBS AG, acting through its Stamford branch;
- references to “UBS AG” mean UBS AG on a parent-only basis;
- references to “UBS,” “UBS Group” or the “Group” mean UBS AG and its consolidated subsidiaries;
- references to “Swiss francs” and “CHF” mean Swiss francs or the lawful currency of Switzerland from time to time;
- references to “\$,” “USD” and “U.S. dollars” mean United States dollars or the lawful currency of the United States of America from time to time; and
- references to “€” and “EUR” mean euros.

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## Risk Factors

***Prospective investors should read the entire offering circular. Words and expressions defined under “Description of Notes” below, in the Terms and Conditions in Annex A or elsewhere in this offering circular have the same meanings in this section. Investing in the Notes involves risks. 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 offering circular;
- (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 Relevant Capital Ratios and Relevant Trigger Capital Ratios, 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 behavior 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.

The Notes are novel and complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield 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 offering circular or incorporated by reference herein.

### ***The Notes may be subject to a Contingent Write-Down.***

You will lose the entire amount of your investment in the Notes upon 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 cancelled.

Furthermore, upon the occurrence of a Contingent Write-Down, (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 from (and including) the last Interest Payment Date falling on or prior to the Write-Down Notice Date.

Any such 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

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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.

A Trigger Event (“**Trigger Event**”) will be deemed to have occurred if the Issuer determines, and notifies the holders that, UBS AG’s capital has fallen below a certain threshold. A Viability Event (“**Viability Event**”) will be deemed to have occurred if (i) the Swiss Financial Market Supervisory Authority (the “**FINMA**”) determines that a Contingent Write-Down is necessary to prevent the insolvency, bankruptcy or failure of UBS AG 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. Either could occur before formal insolvency 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, 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 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 any other outstanding capital instruments if the terms of the relevant 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 will in each case be subject to 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.

***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 UBS AG, 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 (each as defined under “Description of Notes–Status and Subordination–Subordination” below).

Therefore, if UBS AG were wound up, liquidated or dissolved, the UBS AG liquidator would first apply assets of UBS AG to satisfy all rights and claims of holders of Senior Obligations. If UBS AG 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 UBS AG 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 UBS AG has sufficient

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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 proceedings or otherwise. As a result, even if other Notes that rank *pari passu* with or junior to the Notes are paid in full, following the Contingent Write-Down, the holders of the Notes will receive only the interest that was due and payable prior to the time of the relevant Write-Down Notice Date.

***If UBS AG were to be subject to an insolvency proceeding, the holders of the Notes have waived the benefits of the separate proceeding that would be conducted with respect to the Connecticut or U.S. branches of UBS AG.***

As described below under “Regulation and Supervision of the Issuer in the United States,” Connecticut and U.S. federal law provide for separate proceedings with respect to U.S. branches and agencies of non-U.S. banks, like the Issuer, in the event of the insolvency or failure of the non-U.S. bank. Creditors of those branches and agencies generally have the right to pursue their claims against the branches or agencies in the proceeding conducted by the receiver appointed under Connecticut or U.S. federal law, as applicable. However, each holder and beneficial owner of a Note will, by accepting a direct or beneficial interest in such Note, waive its rights to bring claims in any such proceeding and will instead be required to enforce its rights in the insolvency proceeding with respect to UBS AG conducted in Switzerland, as described under “Description of Notes—Events of Default” below. As a result, the rights of investors in the Notes will be determined under Swiss insolvency law applicable to UBS AG, and investors in the Notes may not be entitled to the protections to which they would be entitled in a U.S. insolvency proceeding.

***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 UBS AG.

The occurrence of a Trigger Event under the Notes depends, in part, on the calculation of the Relevant Trigger Capital Ratio (*i.e.*, prior to the Basel III Implementation Date, the Trigger Core Tier 1 Ratio, and on or after the Basel III Implementation Date, the Trigger CET1 Ratio) and whether such ratio is below five percent. Such 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 BIS Risk Weighted Assets in businesses that it is seeking to exit, structured products, emerging markets and derivatives. This calculation may also be affected by changes in applicable accounting rules. Those accounting changes may have a material adverse impact on UBS’s reported financial position.

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, 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 UBS AG and with which UBS AG does not agree.

Because of 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 behavior of the Notes is not necessarily expected to follow the trading behavior 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.

In addition, according to article 25 *et seq.* of the Swiss Banking Act, the FINMA has broad statutory powers to take measures or other actions in relation to UBS AG if it (i) is overindebted, (ii) has serious liquidity problems or

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(iii) fails to fulfill the applicable capital adequacy provisions after expiry of a deadline set by the FINMA. If one of these prerequisites is met, the FINMA is authorized to open restructuring proceedings (*Sanierungsverfahren*) or liquidation (bankruptcy) proceedings (*Bankenkonkurs*) in respect of, and/or impose protective measures (*Schutzmassnahmen*) in relation to, UBS AG, even if, at that time, a Trigger Event or a Viability Event has not occurred. The Swiss Banking Act (as last amended as of March 1, 2011 and September 1, 2011) 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 reorganization or liquidation proceedings. In a restructuring proceeding, the resolution plan may, among other things, (i) provide for the transfer of UBS AG's assets or a portion thereof, together with debts and other liabilities, to another entity, (ii) provide for the conversion of UBS AG's debt or other obligations, including its obligations under the Notes, into equity and/or (iii) potentially provide for haircuts on obligations of UBS AG, including its obligations under the Notes. As of the date of this offering circular, the issuance of the implementing ordinances relating to the recent amendments to the Swiss Banking Act is still pending and the FINMA has not yet exercised any of its new powers thereunder. Consequently, the impact any such exercise with respect to UBS AG could have on the rights of the holders under the Notes or the ability of UBS AG to make payments thereunder is currently not clear.

***There are limited remedies available under the Notes.***

In accordance with the FINMA's requirements for Tier 2 capital, and as more particularly described under "Description of Notes—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 UBS AG 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.

In addition, as described under "Description of Notes—Payments," once the Fiscal Agent has received due and punctual payment of funds in U.S. dollars as required under the terms of the Notes, the Issuer is released from obligations under the Notes to the extent of such payment. If for any reason the Fiscal Agent fails to forward such payment to the holders of the Notes as contemplated by the terms of the Notes and the fiscal agency agreement, holders of the Notes would only have recourse against the Fiscal Agent and would have no remedy available from the Issuer under the terms of the Notes.

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

There is no restriction on the amount or type of further securities or indebtedness that UBS AG 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 UBS AG and may limit the Issuer's ability to meet its obligations under the Notes. In addition, the Notes do not contain any restriction on UBS AG issuing securities that 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.***

There are circumstances under which the Issuer may, without the consent of the holders, amend the Terms and Conditions as a result of a change in what qualifies as Tier 2 Capital and Progressive Capital Component of the UBS



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Group (i.e., an “Alignment Event”). In that case, the Issuer may unilaterally align the Terms and Conditions (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 under “Description of Notes–Amendments” below. 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, the Terms and Conditions incorporate by reference certain 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.

***Because the Global Notes are held by or on behalf of DTC, investors will have to rely on DTC’s procedures for transfer, payment and communication with the Issuer.***

The Notes will be represented by one or more Global Notes except in certain limited circumstances described under “Book Entry, Delivery and Form of Securities” below. The Global Notes will be deposited with a custodian on behalf of DTC in the name of Cede & Co. as nominee. DTC will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, investors will be able to trade their entitlements only through DTC. The Global Notes will be exchangeable in very limited circumstances described herein, in whole but not in part, for Notes in registered, definitive form.

While the Notes are represented by one or more Global Notes, the Issuer will discharge its payment obligations under the Notes by making payments to the Fiscal Agent, which then makes payments to DTC or a nominee thereof, for distribution to its account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of DTC to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes may have to rely on DTC and/or their respective custodian bank to exercise voting rights with respect to such Notes in any creditors meeting in relation to the Notes or to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer in the event of a default under the Notes. Rather, holders will have to rely upon their limited rights under the Terms and Conditions. See “Book Entry, Delivery and Form of Securities” below.

***Minimum Denomination.***

As the Notes have a denomination consisting of the 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 \$250,000 (or its equivalent) that are not integral multiples of \$250,000 (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 \$250,000. However, if in some way a Note holder, as a result of trading in Notes, holds a principal amount of less than the minimum denomination, that holder may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination in order to receive delivery of the Notes.

***Holders will bear the risk of fluctuations in the Relevant Capital Ratio.***

The market price of the Notes is expected to be affected by fluctuations in the Relevant Capital Ratio since the amount of Core Tier 1 Capital or CET1 Capital, as applicable, may vary, as may the amount of the BIS Risk

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Weighted Assets. Any indication that the Relevant Capital Ratio is trending towards a Trigger Event may have an adverse effect on the market price of the Notes. The level of the Relevant Capital Ratio may significantly affect the trading price of 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 recognized statistical ratings organizations 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 offering circular 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 UBS'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.

***Because UBS AG is located outside the United States, holders may be limited in their ability to enforce U.S. laws against UBS AG, its management and others.***

UBS AG is a Swiss bank. Many of its directors and executive officers are resident outside the United States, and all or a substantial portion of the assets of its directors and executive officers are located outside the United States. As a result, it may be difficult for you to serve legal process within the United States upon the directors and executive officers of UBS AG or to enforce, outside the United States, judgments obtained against UBS AG or its directors or executive officers in courts in jurisdictions inside the United States in any action, including actions predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

***The United States federal income tax consequences of your investment in the Notes are uncertain. We urge you to read the more detailed discussion of U.S. federal income tax treatment of the Notes set forth under "Taxation—United States—Material U.S. Federal Income Tax Consequences" on page 73 of this offering circular.***

There is no authority that addresses the tax treatment of an instrument such as the Notes that is denominated as a subordinated debt instrument but that provides for a Contingent Write-Down under which a holder of the Notes could lose its entire investment in the Notes. It is therefore unclear whether the Notes should be treated as equity of UBS AG or as debt of UBS AG's Stamford branch, for U.S. federal income tax purposes. We believe, however, that it is more likely than not that the Notes will be treated as equity of UBS AG for United States federal income tax purposes, and the terms of the Notes require a United States holder (as defined under "Taxation—United States—Material U.S. Federal Income Tax Consequences") and UBS AG (in the absence of a statutory, regulatory, administrative or judicial ruling to the contrary) to treat the Notes for United States federal income tax purposes in accordance with such characterization except to the extent relating to withholding and reporting obligations in respect of non-United States holders. However, because there is no authority that specifically addresses the tax treatment of the Notes, it is possible that the Notes could be treated for U.S. federal income tax purposes as debt of UBS AG's Stamford branch, in which case you may be subject to adverse tax consequences. For a discussion of this alternative treatment of the Notes, see "Taxation—United States—Material U.S. Federal Income Tax Consequences—Alternative Treatments."

Holders are urged to consult their tax advisers concerning the significance and potential impact of the above considerations.

## **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 UBS AG and the UBS Group. Although application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list and trading on its regulated market, there is no assurance as to the development or liquidity of any trading market for the Notes.

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### ***Exchange rate risks and exchange controls.***

The Issuer will, in the circumstances provided herein, pay principal and interest on the Notes in U.S. dollars. 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 U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars 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, you 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.

### ***EU Savings Tax Directive.***

Under the European Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Tax Directive**"), each member state of the European Union (the "**Member State**") is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 35 percent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries including Switzerland and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On October 26, 2004, the European Community and Switzerland entered into an agreement on the taxation of savings income pursuant to which Switzerland agreed to adopt measures equivalent to those of the EU Savings Tax Directive on the taxation of savings income in the form of interest payments. The agreement came into force as of July 1, 2005.

In accordance with this agreement and the Swiss law implementing this agreement, Swiss paying agents are required to withhold tax at a rate of 35 percent on interest payments made under the Notes to a beneficial owner who is an individual and resident of a Member State, with the option of the individual to have the paying agent and Switzerland provide to the tax authorities of the Member State the details of the interest payments in lieu of the withholding.

On November 13, 2008, the European Commission published a proposal for amendments to the EU Savings Tax Directive, which included a number of suggested changes that, if implemented, would broaden the scope of the

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requirements described above. The European Parliament approved an amended version of this proposal on April 24, 2009. Investors who are in any doubt as to their position should consult their professional advisers.

***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 offering circular. 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 offering circular.

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 (i) in respect of the provisions in the Swiss Banking Act concerning “too big to fail” (*Botschaft zur Änderung des Bankengesetzes (Stärkung der Stabilität im Finanzsektor; too big to fail, TBTF)*) that entered into force as of March 1, 2012, or (ii) as required in order to implement the Basel III framework or any amendments thereof, could impact the calculation of the Relevant Capital Ratio, including the Core Tier 1 Ratio, the Core Tier 1 Capital, 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 Core Tier 1 Ratio or the CET1 Ratio, as applicable, any change in Swiss law that affects the calculation of the Core Tier 1 Ratio or the CET1 Ratio, as applicable, 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 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 under “Description of Notes—Amendments—Amendments Following an Alignment Event”.

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 August 24, 2011, the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent in Switzerland (which may be interpreted to include UBS AG) to deduct Swiss withholding tax at a rate of 35 percent 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 with respect to debt securities in global form, such as the Notes, 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

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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. See “Description of Notes—Taxation and Additional Amounts.”

Purchasers of 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 relating to UBS—Regulatory and legislative changes may adversely affect UBS’s business and ability to execute its strategic plans.”).

### **Risks relating to UBS**

Certain risks, including those described below, may impact UBS’s ability to execute its strategy and directly 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 UBS currently does not consider to be material could also materially affect its business activities, financial condition, results of operations and prospects. 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.

#### ***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 recent financial crisis, and in light of the current instability in global financial markets, regulators and legislators have proposed, adopted or are actively considering a wide range of changes to these laws and regulations. The measures are generally designed to address the perceived causes of the crisis and to limit the systemic risks posed by major financial institutions. These measures include the following:

- significantly higher regulatory capital requirements;
- changes in the definition and calculation of regulatory capital, including the capital treatment of certain capital instruments issued by UBS and other banks;
- changes in the calculation of risk-weighted assets (“**RWA**”);
- the introduction of a leverage ratio;
- new or significantly enhanced liquidity requirements;
- requirements to maintain liquidity and capital in multiple jurisdictions where 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;
- a variety of measures constraining, taxing or imposing additional requirements relating to compensation;
- requirements to adopt structural and other changes designed to reduce systemic risk and to make major financial institutions easier to wind down or disassemble.

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A number of measures have been adopted and will be implemented in 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 the timing of their implementation.

Notwithstanding attempts by regulators to coordinate their efforts, the proposals differ by jurisdiction and therefore enhanced regulation may be imposed in a manner that makes it more difficult to manage a global institution. The absence of a coordinated approach is also likely to disadvantage certain banks, such as UBS, as they attempt to compete with less strictly regulated financial institutions and unregulated non-bank competitors.

In September 2011, the Swiss parliament adopted the “too big to fail” law to address the issues posed by large banks. The law became effective on March 1, 2012. Accordingly, Swiss regulatory change efforts are generally proceeding more quickly than those in other major jurisdictions, and the FINMA, the Swiss National Bank 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, proposed or publicly espoused by regulatory authorities in other major global banking centers.

The Swiss Federal Department of Finance has issued a revised banking ordinance and capital adequacy ordinance, whose provisions implementing the Swiss “too-big-to-fail” law still need to be approved by the chambers of parliament. These ordinances could in effect result in higher capital adequacy requirements than the 19 percent of RWA that has been publicly discussed. Higher capital requirements may, for instance, be the result of the early implementation in Switzerland of the counter-cyclical buffer requirement recommended by the Basel Committee on Banking Supervision (the “**Basel Committee**”).

The new ordinances contain, among other things, provisions regarding emergency plans for systemically important functions, recovery and resolution planning and intervention measures that may be triggered when certain capital thresholds are breached. Those intervention levels may be set at higher capital levels than under current law, and may depend upon the capital structure and type of buffer capital the bank will have to issue to meet the specific Swiss requirements (6 percent to cover systemic risk in addition to the 13 percent to be required due to the combination of Basel III and the “Swiss finish”). The “too-big-to-fail” parts of the ordinances are expected to come into force on January 1, 2013.

If UBS is not able to demonstrate that its systemically relevant functions in Switzerland can be maintained even in case of a threatened insolvency, the FINMA may impose more onerous requirements on UBS. Although the actions that the 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, possibly with limitations on intra-group funding and guarantees), or in some manner reduce business risk levels. The law also provides that the largest banks will be eligible for a capital rebate if they take actions that facilitate recovery and resolvability beyond ensuring that systemically important functions are maintained in case of insolvency. Such actions would likely include an alteration of the legal structure of a bank group, in a manner that would insulate parts of the group from exposure to risks from arising from other parts of the group, thereby making it easier in a resolution scenario to allow certain parts of the group to fail or be disposed of without affecting other parts.

Regulatory changes in other locations in which UBS operates may subject UBS to requirements to move activities from UBS AG branches into subsidiaries, which in turn creates operational, risk control, capital and tax inefficiencies, as well as higher local capital requirements and potentially client and counterparty concerns about the credit quality of the subsidiary. Such changes could also negatively impact UBS’s funding model and severely limit UBS’s booking flexibility. For example, UBS has significant operations in the U.K. and uses London as a global booking center for many types of products. The U.K. Independent Commission on Banking (“**ICB**”) has recommended structural and non-structural reform of the banking sector to promote financial stability and competition. The majority of these proposals have been endorsed by the U.K. government. Key measures proposed include the ring-fencing of retail activities in the U.K., additional common equity tier 1 capital requirements of up to 3% of RWA for retail banks, and the issuance of debt subject to “bail-in” provisions. Such measures could have a material effect on UBS’s businesses located or booked in the U.K., although the applicability and implications of such changes to offices and subsidiaries of foreign banks are not yet entirely clear. Already, UBS is being required by regulatory authorities to increase the capitalization of UBS’s U.K. bank subsidiary, UBS Limited, and expects to be required to change UBS’s booking practices to reduce or even eliminate UBS’s utilization of UBS AG London branch as a global booking center for the Investment Bank.

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The adoption of the Dodd-Frank Act in the U.S. will also affect a number of activities of UBS as well as those of other banks. The implementation of the Volcker Rule as of July 2012, for example, is one reason for UBS's announced decision to exit equities proprietary trading business segments within the Investment Bank. For other trading activity, UBS expects that it will be required to implement a compliance regime, including the calculation of detailed metrics for each trading book, and may be required to implement a compliance plan globally. Depending on the nature of the final rules, as well as the manner in which they are implemented, the Volcker Rule could have a substantial impact on market liquidity and the economics of market-making activities. The Volcker Rule also broadly limits investments and other transactional activities between banks and covered funds. The proposed implementing regulations both expand the scope of covered funds and provide only a very limited exclusion for activities of UBS outside the U.S. If adopted as proposed, the regulations could limit certain of UBS's activities in relation to funds, particularly outside the U.S.

In addition, in 2009 the G20 countries committed to move all standardized over-the-counter (“OTC”) derivative contracts on exchange and clear them through central counterparties by the end of 2012. This commitment is being implemented through the Dodd-Frank Act in the U.S. and corresponding legislation in the European Union and other jurisdictions, and will have a significant impact on UBS's OTC derivatives business, primarily in the Investment Bank. For example, OTC derivatives trading will move toward a central clearing model, increasing transparency through trading on exchanges or swap execution facilities. 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.

In connection with the rules being adopted on swaps and derivative markets in the U.S. as part of the Dodd-Frank Act, UBS AG expects to register as a swap dealer in the U.S. during 2012. The new regulations will impose substantial new requirements on registered swap dealers, initially primarily in relation to transactions with U.S. persons. Proposed interpretations may extend the reach of U.S. regulations to OTC derivative transactions with non-US persons. The potential extra-territorial application of the new rules could create a significant operational and compliance burden and potential for duplicative and conflicting regulation.

Because many of the regulations that must be adopted to implement the Dodd-Frank Act have not yet been finalized, the effect on business booked or conducted by UBS in whole or in part outside the U.S. cannot yet be determined fully.

UBS is currently required to produce recovery and resolution plans in the U.S., the U.K. and Switzerland and is likely to face similar requirements for its operations in the EU as a whole as part of the proposed EU Recovery and Resolution Directive. Resolution plans may increase the pressure for structural change if UBS's analysis identifies impediments that are not acceptable to regulators. Such structural changes may negatively impact UBS's ability to benefit from synergies between business units.

In addition, a number of jurisdictions, including Switzerland, the U.S., the U.K. and the EU, have implemented or are considering implementing changes that would allow resolution authorities to convert debt of a financial institution into equity (a “bail-in”), which may have an effect on UBS's funding costs.

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 an impact on UBS's legal structure or business model. Finally, the uncertainty related to legislative and regulatory changes may have a negative impact on UBS's relationships with clients and UBS's success in attracting client business.

Due to recent changes in Swiss regulatory requirements, and due to liquidity requirements imposed by certain jurisdictions in which UBS operates, UBS has been required to maintain substantially higher levels of liquidity overall than had been its usual practice in the past. Like increased capital requirements, higher liquidity requirements make certain lines of business, particularly in the Investment Bank, less attractive and may reduce UBS's overall ability to generate profits.

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

Damage to UBS's reputation can have fundamental negative effects on UBS's business and prospects. UBS's reputation is critical to the success of its strategic plans. 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

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losses during the financial crisis, the U.S. cross-border matter and other events seriously damaged its reputation. Reputational damage was an important factor in the loss of clients and client assets across UBS's asset-gathering businesses, and contributed to the 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. UBS recognized that restoring its reputation would be essential to maintaining its relationships with clients, investors, regulators and the general public, as well as with employees. The unauthorized trading incident that UBS announced in September 2011 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.

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

UBS's capital position, as measured by the BIS tier 1 and total capital ratios, 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, as determined for the purpose of the regulatory capital calculation. Eligible capital can also be reduced for a number of other reasons, including certain reductions in the ratings of securitization exposures, adverse currency movements directly affecting the value of equity and prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions. RWA, on the other hand, are driven by UBS's business activities and by changes in the risk profile of UBS's exposures. For instance, substantial market volatility, a widening of credit spreads (the major driver of UBS's value-at-risk), a change in regulatory treatment of certain positions (such as the application of market stresses in accordance with Basel 2.5 adopted in the last quarter of 2011), adverse currency movements, increased counterparty risk or a deterioration in the economic environment could result in a rise in RWA. Any such reduction in eligible capital or increase in RWA could materially reduce UBS's capital ratios.

The required levels and calculation of UBS's regulatory capital and the calculation of UBS's RWA are also subject to changes in regulatory requirements or their interpretation. UBS is subject to regulatory capital requirements imposed by FINMA, under which UBS has higher RWA than would be the case under BIS guidelines. Forthcoming changes in the calculation of RWA under Basel III and the FINMA requirements will significantly increase the level of UBS's RWA and therefore have an adverse effect on UBS's capital ratios. UBS has announced plans to reduce its RWA very substantially to mitigate the effects of the changes in the RWA calculation. However, there is a risk that UBS will not be successful in pursuing its plans, either because it is unable to carry out fully the actions it has planned or because other business or regulatory developments to some degree counteract the benefit of UBS's actions.

In addition to the risk-based capital requirements, the FINMA has introduced a minimum leverage ratio, which must be achieved by January 1, 2013. 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 the risk-based capital requirements.

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 (including changes of the banking law under the "too-big-to-fail" measures), 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. Moreover, although UBS has recently identified certain businesses that UBS plans to exit in response to regulatory and business changes, changes in the calculation and level of capital requirements or other regulatory changes may render uneconomic certain other businesses conducted in UBS's Investment Bank or in other business divisions, or may undermine their viability in other ways. The reduction or elimination of lines of business could adversely affect UBS's competitive position, particularly if competitors are subject to different requirements under which those activities continue to be sustainable.

***UBS's performance in the financial services industry is affected by market conditions and the economic 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, inflation or a severe financial crisis can negatively affect UBS's revenues and ultimately its capital base.



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A market downturn 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 which are susceptible to macroeconomic and political developments, or as a result of the failure of a major market participant. UBS has material exposures to certain emerging market economies, both as a wealth manager and as an investment bank. As UBS's presence and business in emerging markets increase, and as UBS's strategic plans depend more heavily upon its ability to generate growth and revenue in the emerging markets, UBS becomes more exposed to these risks. The ongoing eurozone crisis demonstrates that such developments even in more developed markets can have similarly unpredictable and destabilizing 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 its businesses as follows:

- a general reduction in business activity and market volumes, as UBS has experienced in recent quarters, affects fees, commissions and margins from market-making and client-driven transactions and activities; local or regional economic factors, such as the ongoing eurozone 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;
- reduced market liquidity 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 UBS's financial condition. 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 to a lesser extent in 2009. Although UBS has significantly reduced its risk exposures starting in 2008, in part through transfers in 2008 and 2009 to a fund controlled by the SNB, UBS continues to hold substantial legacy risk positions, the value of which was reduced significantly by the financial crisis. In many cases these risk positions continue to be illiquid and have not recovered much of their lost 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 amortized cost; these assets are subject to possible impairment due to changes in market interest rates and other factors.

UBS has announced and begun to carry out plans to reduce drastically the risk-weighted assets associated with the legacy risk positions, but the continued illiquidity and complexity of many of these legacy risk positions could make it difficult to sell or otherwise liquidate these exposures. At the same time, UBS's strategy rests heavily on its ability

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to reduce sharply the risk-weighted assets associated with these exposures in order to meet UBS's future capital targets and requirements without incurring unacceptable losses.

UBS holds positions related to real estate in various countries, including a very substantial Swiss mortgage portfolio, and UBS could suffer losses on these positions. 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 UBS provides financing may decline rapidly.

***UBS's global presence subjects UBS to risk from currency fluctuations.***

UBS prepares its consolidated financial statements in Swiss francs. However, a substantial portion of UBS's assets, liabilities, invested assets, revenues and expenses are denominated in other currencies, particularly the U.S. dollar, the euro and the British pound. Accordingly, changes in foreign exchange rates, particularly between the Swiss franc and the U.S. dollar (U.S. dollar revenue accounts for the largest portion of UBS's non-Swiss franc revenue) 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, the strengthening of the Swiss franc, especially against the U.S. dollar and euro, which occurred during 2011, had an adverse effect on UBS's revenues and invested assets. Since 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 UBS's 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, wealth management and Investment Bank activities. This includes lending, underwriting and derivatives businesses and positions. Changes in interest rates, credit spreads, equity prices 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 UBS 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 or incorrect;
- markets move in ways that UBS does not expect – in terms of their speed, direction, severity or correlation – and its ability to manage risks in the resultant environment is therefore affected;
- third parties to whom UBS has credit exposure or whose securities UBS holds for its own account are severely affected by events not anticipated by UBS's models, and UBS accordingly 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 UBS's 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 assess investment

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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 UBS sponsors in its asset or wealth management businesses (such as the property fund to which Wealth Management has exposure), UBS 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 assets rely on models; models have inherent limitations and may use inputs which have no observable source.***

Where possible, UBS marks its trading book assets 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 assets 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.

***UBS is exposed to possible outflows of client assets in its wealth management and asset management businesses.***

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 UBS's reputation, the loss of client advisers, difficulty in recruiting qualified client advisers and developments concerning UBS's cross-border private banking business. Many of these factors have been successfully addressed, as evidenced by UBS's overall net new money inflows in 2011, but others, such as the long-term changes affecting the cross-border private banking business model, will continue to affect client flows for an extended period of time. If UBS experiences again material net outflows of client assets, the results of its wealth management and asset management businesses are likely to be adversely affected.

***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 UBS 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, 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 UBS's 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 recent years, ratings downgrades can require UBS to post additional collateral or make additional cash payments under master trading agreements relating to UBS's derivatives businesses. UBS's credit ratings, together with UBS's 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.

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The 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.

***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, unauthorized, 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, unauthorized trading, fraud, system failures, cyber-attacks and failure of security and physical protection, are appropriately controlled. If UBS's internal controls fail or prove ineffective in identifying and remedying such risks UBS could suffer operational failures that might result in material losses, such as the loss from the unauthorized trading incident announced in September 2011.

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 unauthorized 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 UBS's financial statements for either year.

***Legal claims and regulatory risks and restrictions arise in the conduct of UBS's business.***

Due to the nature of its business, UBS is subject to regulatory oversight and liability risk. UBS 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 these matters cannot be predicted and they could adversely affect UBS's future business or financial results. UBS continues to be subject to government inquiries and investigations, and is involved in a number of litigations and disputes, many of which arose out of the financial crisis of 2007-2009. The unauthorized trading incident announced in September 2011 has triggered a joint investigation by the FINMA and the U.K. Financial Services Authority and separate enforcement proceedings by the two authorities. UBS is also subject to potentially material exposure in connection with claims relating to U.S. RMBS and mortgage loan sales, the Madoff investment fraud, Lehman principal protection notes, LIBOR rate submissions and other matters.

UBS is in active dialogue with its regulators concerning the actions that it is taking to improve its operational and risk management controls, processes and systems. 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 largely remediated the deficiencies that led to the material losses during the recent financial crisis, the unauthorized trading incident announced in September 2011 has revealed different shortcomings that UBS is also urgently addressing. The unauthorized trading incident has presented UBS with further challenges and potential constraints on the execution of UBS's business strategy, as UBS seeks once again to enhance its operational and control framework and demonstrate its effectiveness to regulatory authorities. Notwithstanding the remediation UBS has already completed and which is in process, the consequences of the ongoing regulatory review and enforcement proceedings arising from the incident cannot be predicted.

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

The financial services industry is characterized by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. 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 are being eroded by new technology. UBS expects these trends to continue and competition to increase in the future.

UBS's competitive strength and market position could be eroded if it is unable to identify market trends and developments, does not respond to them by devising and implementing adequate business strategies 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

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considerations. Constraints on the amount of employee compensation, higher levels of deferral and clawbacks and performance conditions may adversely affect UBS's ability to retain and attract key employees, and may in turn negatively affect its business performance. Starting with the performance year 2009, the portion of variable compensation granted in the form of deferred shares was much higher than in the past. Although UBS's peers have over time also increased their deferral percentages, UBS continues to be subject to the risk that key employees will be attracted by competitors and decide to leave UBS, or that it may be less successful than its competitors in attracting qualified employees. Regulatory constraints and pressure from regulators and other stakeholders affect not only UBS but also the other major international banks, but some of UBS's peers may have a competitive advantage due to differences in the requirements and intensity of pressure among different jurisdictions.

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

UBS is required to report 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 may mean that UBS's reported results and financial position differ in the future from those expected. Such changes also may affect UBS's regulatory capital and ratios. When accounting changes are finalized, UBS assesses the potential impact and discloses significant future changes in its financial statements. Currently, there are a number of finalized and potential accounting changes that are 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 UBS's goodwill.***

The goodwill UBS has recognized on its balance sheet is tested for impairment at least annually. UBS's impairment test in respect of the assets recognized as of December 31, 2011 indicated that the value of UBS's 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.

***UBS is exposed to risks arising from the different regulatory, legal and tax regimes applicable to UBS's global businesses.***

UBS operates in more than 50 countries, earns income and holds assets and liabilities in many different currencies and is subject to many different legal, tax and regulatory regimes. UBS's ability to execute its global strategy depends on obtaining and maintaining local regulatory approvals. This includes the approval of acquisitions or other transactions and the ability to obtain and maintain the necessary licenses to operate in local markets. 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.

***The effects of taxes on UBS's financial results are significantly influenced by changes in UBS's deferred tax assets and final determinations on audits by tax authorities.***

The deferred tax assets UBS has recognized on its balance sheet as of December 31, 2011 in respect of prior years' tax losses are based on profitability assumptions over a five-year horizon. If the business plan earnings and assumptions in future periods substantially deviate from the current outlook, the amount of deferred tax assets may need to be adjusted in the future. This could include write-offs of deferred tax assets through the income statement if actual results come in substantially below the business plan forecasts and/or if future business plan forecasts are revised downward substantially.

In the coming years, UBS's effective tax rate will be highly sensitive both to UBS's performance and to the development of new business plan forecasts. Currently unrecognized deferred tax assets in the U.K. and especially the U.S. could be recognized if UBS's actual and forecasted performance in those countries is strong enough to justify further recognition of deferred tax assets under the governing accounting standard. UBS's results in recent periods have demonstrated that changes in the recognition of deferred tax assets can have a very significant effect on UBS's reported results. If, for example, the Group's performance in the U.K. and especially in the U.S. is strong, UBS could be expected to write up additional U.S. and/or U.K. deferred tax assets in the coming years. The effect of

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doing so would significantly reduce the Group's effective tax rate in years in which any write-ups are made. Conversely, if UBS's performance in those countries does not justify additional deferred tax recognition, but nevertheless supports UBS's maintaining current deferred tax levels, UBS expects the Group's effective tax rate to be in the range of 20-25% (although the tax rate may differ if there are significant book tax adjustments, which generally mainly affect Swiss taxable profits, for example own credit gains/losses).

UBS's effective tax rate is also sensitive to any future reductions in tax rates, particularly in the U.S. and Switzerland, which would cause the expected future tax saving from items such as tax loss carry-forwards in those locations to diminish in value. This in turn would cause a write-down of deferred tax assets.

Additionally, the final effect of income taxes UBS accrues in the accounts is often only determined after the completion of tax audits (which generally takes a number of years) or the expiry of statutes of limitations. In addition, changes to, and judicial interpretation of, tax laws or policies and practices of tax authorities could cause the amount of taxes ultimately paid by UBS to materially differ from the amount accrued.

In 2011, the U.K. government introduced a balance sheet based levy payable by banks operating and/or resident in the U.K.. An expense for the year of CHF 109 million has been recognized in operating expenses (within pre-tax profit) in the fourth quarter of 2011. In November 2011 the U.K. government announced its intention to increase the rate of the levy by 17% from January 1, 2012. The Group's bank levy expense for future years will depend on both the rate and the Group's taxable U.K. liabilities at each year end: changes to either factor could increase the cost. While not yet certain, UBS expects that the annual bank levy expense will continue to be recognized for IFRS purposes as a one-off 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.

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## About this Offering Circular

The Issuer accepts responsibility for the information contained in this offering circular. To the best of the knowledge of the Issuer (who has taken all reasonable care to ensure that such is the case) the information contained in this offering circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

UBS AG has confirmed to the underwriters named in this offering circular that, as of the date on the cover of this offering circular or the date of such incorporated information, as applicable, (i) this offering circular is true and accurate in all material respects and is not misleading; (ii) there are no other facts in relation to the information contained or incorporated by reference in this offering circular the omission of which would, in the context of the issue of the Notes, make any statement in this offering circular misleading in any material respect; and (iii) all reasonable inquiries have been made to verify the foregoing.

The Issuer has not authorized the making of any representation, or the provision of information, regarding UBS or the Notes other than as contained in this offering circular. UBS AG takes no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

This offering circular does not constitute, and may not be used for the purposes of, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation and no action is being taken to permit an offering of the Notes or the distribution of this offering circular in any jurisdiction where any such action is required.

The delivery of this offering circular does not at any time imply that the information contained in or incorporated into this offering circular concerning UBS AG is correct at any time subsequent to the date of this offering circular or the date of such incorporated information, as applicable, or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing that information. No underwriter undertakes to review the financial condition or affairs of UBS Group during the life of the Notes. Investors should review the most recently published audited annual financial statements of UBS Group and the most recently published unaudited interim financial statements of UBS Group incorporated by reference into this offering circular, as well as the other information contained or incorporated into this offering circular, when deciding whether or not to purchase any Notes.

No underwriter has separately verified the information contained in this offering circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by an underwriter as to the accuracy or completeness of the information contained in this offering circular or any other information provided by UBS AG. No underwriter accepts any liability in relation to the information contained in this offering circular or any other information provided by UBS AG in connection with this offering.

Neither this offering circular nor any other information supplied in connection with the Notes (i) is intended to provide the basis for any credit or other evaluation or (ii) should be considered as a recommendation by UBS AG or any underwriter that any recipient of this offering circular or any other information supplied in connection with the Notes should purchase the Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of UBS Group. Neither this offering circular nor any other information supplied in connection with the Notes constitutes an offer or an invitation by or on behalf of UBS AG or any underwriter or any other person to purchase any Notes.

The distribution of this offering circular and the offering of Notes in certain jurisdictions may be restricted by law. Persons who receive this offering circular are required by UBS AG and each underwriter to inform themselves about and to observe such restrictions. For a description of certain further restrictions on offers and sales of the Notes and on the distribution of this offering circular, see “Plan of Distribution” below.

In connection with an offering of Notes purchased by one or more underwriters on a fixed offering price basis, persons participating in the offering (including those underwriters) may engage in transactions that stabilize, maintain or otherwise affect the market price of such Notes. Such transactions may include stabilization transactions effected in accordance with Rule 104 of Regulation M under the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), pursuant to which such persons may bid for or purchase such Notes for the purpose of stabilizing the market price of such Notes. Such underwriters also may create a short position for their respective

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accounts by selling more Notes in connection with the offering than they are committed to purchase from the issuing branch, and in such case may purchase Notes in the open market following completion of the offering to cover all or a portion of such short position. Such open market purchases are known as syndicate covering transactions. The underwriters may also impose a penalty bid, whereby selling concessions allowed to broker-dealers in respect of the Notes sold in an offering may be reclaimed by the underwriters if such Notes are repurchased by the underwriters in stabilizing or covering transactions. Any of the transactions described in this paragraph may result in the maintenance of the price of Notes at a level above that which might otherwise prevail in the open market. None of the transactions described in this paragraph is required and there is no assurance that the underwriters will undertake stabilization actions, and, if any are undertaken, they may be discontinued at any time, but they must end no later than the earlier of 30 days after the Issue Date of the Notes and 60 days after the date of allotment of the Notes. Any stabilization action or over-allotment must be conducted by the underwriters in accordance with applicable laws and rules.



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## Cautionary Note Regarding Forward-Looking Statements

This offering circular contains or incorporates statements that may constitute “forward-looking statements” within the meaning of Section 21E of the Exchange Act. The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as the information is identified as forward-looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. The words “anticipate,” “believe,” “expect,” “estimate,” “intend,” “plan,” “should,” “could,” “may” and other similar expressions are used in connection with forward-looking statements. In this offering circular and the incorporated documents, forward-looking statements may, without limitation, relate to:

- developments in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, currency exchange rates and interest rates and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS’s clients and counterparties;
- changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings;
- the ability of UBS to reduce its Basel III risk-weighted assets in order to comply with future Swiss capital requirements without materially adversely affecting its profitability;
- changes in financial legislation and regulation in Switzerland, the U.S., the U.K. and other major financial centers which may impose constraints on or necessitate changes in the scope and location of UBS’s business activities and in its legal and booking structures, including the imposition of more stringent capital and liquidity requirements, incremental tax requirements and constraints on remuneration;
- possible constraints or sanctions that regulatory authorities might impose on UBS, including as a consequence of the unauthorized trading incident announced in September 2011;
- changes in UBS’s competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS’s ability to compete in certain lines of business;
- the liability to which UBS may be exposed due to litigation, contractual claims and regulatory investigations, including those stemming from the market events and losses incurred by clients and counterparties during the financial crisis of 2007–2009 and from the ongoing investigations relating to the setting of LIBOR and other reference rates;
- the effects on UBS’s cross-border banking business of tax treaties negotiated or under discussion between Switzerland and other countries and future tax or regulatory developments;
- the degree to which UBS is successful in effecting organizational changes and implementing strategic plans, and whether those changes and plans will have the effects intended;
- UBS’s ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses;
- changes in accounting standards or policies, and accounting determinations affecting the recognition of gain or loss, the valuation of goodwill and other matters;
- limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally;
- whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses;
- the occurrence of operational failures, such as fraud, unauthorized trading and systems failures, either within UBS or within a counterparty; and
- the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance.

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You should also consider other risks and uncertainties discussed in the documents that are incorporated by reference into this offering circular.

UBS AG is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

# Incorporation of Information About UBS

We incorporate by reference into this offering circular:

- UBS AG's Annual Report on Form 20-F for the year ended December 31, 2011 (the "**2011 Form 20-F**") ([http://www.static-ubs.com/global/en/about\\_ubs/investor\\_relations/annualreporting/2011/jcr\\_content/par/teaserbox\\_6c86/teaser\\_acb3/linklist/link\\_9f50.228736590.file/bGluay9wYXR0PS9jb250ZW50L2RhbS9zdGF0aWMvZ2xvYmFsL2ludmVzdG9yX3JlbGF0aW9ucy9hbm51YWwyMDEwL0FSMjAxMV9lLnBkZg==/AR2011\\_e.pdf](http://www.static-ubs.com/global/en/about_ubs/investor_relations/annualreporting/2011/jcr_content/par/teaserbox_6c86/teaser_acb3/linklist/link_9f50.228736590.file/bGluay9wYXR0PS9jb250ZW50L2RhbS9zdGF0aWMvZ2xvYmFsL2ludmVzdG9yX3JlbGF0aW9ucy9hbm51YWwyMDEwL0FSMjAxMV9lLnBkZg==/AR2011_e.pdf)), which UBS AG filed with the SEC on March 15, 2012 and which includes the auditor's report and the consolidated audited annual financial statements for the financial years ended December 31, 2010 and December 31, 2011 of UBS AG on pages 279 to 410;
- UBS AG's Second Quarter 2012 Report filed with the SEC on Form 6-K and published on July 31, 2012 (the "**Second Quarter 2012 Report**") ([http://www.static-ubs.com/global/en/about\\_ubs/investor\\_relations/quarterly\\_reporting/2012/2q12/jcr\\_content/par/table\\_f8e7.96200550.file/dGFibGVUZXBhPS9jb250ZW50L2RhbS9zdGF0aWMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/2Q12\\_Financial\\_report.pdf](http://www.static-ubs.com/global/en/about_ubs/investor_relations/quarterly_reporting/2012/2q12/jcr_content/par/table_f8e7.96200550.file/dGFibGVUZXBhPS9jb250ZW50L2RhbS9zdGF0aWMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/2Q12_Financial_report.pdf)); and
- UBS AG's submissions on Form 6-K, which UBS AG filed with the SEC on March 22, 2012 (excluding the two submissions consisting of legal opinions) (accessible at <http://www.ise.ie/app/announcementDetails.aspx?ID=11283552>), March 26, 2012 (excluding the submission consisting of a legal opinion) (accessible at <http://www.ise.ie/app/announcementDetails.aspx?ID=11283552>), May 2, 2012 (excluding the submission consisting of a legal opinion) ([http://www.static-ubs.com/global/en/about\\_ubs/investor\\_relations/other\\_filings/sec/jcr\\_content/par/linklist\\_ee9e/link\\_a70d.1058470685.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/1Q12Report.pdf](http://www.static-ubs.com/global/en/about_ubs/investor_relations/other_filings/sec/jcr_content/par/linklist_ee9e/link_a70d.1058470685.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/1Q12Report.pdf)) ([http://www.static-ubs.com/global/en/about\\_ubs/investor\\_relations/other\\_filings/sec/jcr\\_content/par/linklist\\_ee9e/link\\_51bf.1969568441.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/1Q12Presentat ionMaterials.pdf](http://www.static-ubs.com/global/en/about_ubs/investor_relations/other_filings/sec/jcr_content/par/linklist_ee9e/link_51bf.1969568441.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/1Q12Presentat ionMaterials.pdf)) ([http://www.static-ubs.com/global/en/about\\_ubs/investor\\_relations/other\\_filings/sec/jcr\\_content/par/linklist\\_ee9e/link\\_b4ec.1664013857.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/1Q12CapTable.Ratio.pdf](http://www.static-ubs.com/global/en/about_ubs/investor_relations/other_filings/sec/jcr_content/par/linklist_ee9e/link_b4ec.1664013857.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/1Q12CapTable.Ratio.pdf)), May 3, 2012 (excluding the two submissions consisting of legal opinions) (accessible at <http://www.ise.ie/app/announcementDetails.aspx?ID=11283552>), May 24, 2012 (excluding the two submissions consisting of legal opinions) (accessible at <http://www.ise.ie/app/announcementDetails.aspx?ID=11283552>), July 6, 2012 ([http://www.static-ubs.com/global/en/about\\_ubs/investor\\_relations/other\\_filings/sec/jcr\\_content/par/linklist\\_e8d/link.33636470.file/bGluay9wYXR0PS9jb250ZW50L2RhbS9G6b3JtLTZLLTA3MDYxMi5wZGY=/Form-6K-070612.pdf](http://www.static-ubs.com/global/en/about_ubs/investor_relations/other_filings/sec/jcr_content/par/linklist_e8d/link.33636470.file/bGluay9wYXR0PS9jb250ZW50L2RhbS9G6b3JtLTZLLTA3MDYxMi5wZGY=/Form-6K-070612.pdf)) and July 31, 2012 (excluding the submission consisting of a legal opinion) ([http://www.static-ubs.com/global/en/about\\_ubs/investor\\_relations/other\\_filings/sec/jcr\\_content/par/linklist\\_b899/link\\_a70d.54705420.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/2Q12Report.AsFiled.pdf](http://www.static-ubs.com/global/en/about_ubs/investor_relations/other_filings/sec/jcr_content/par/linklist_b899/link_a70d.54705420.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/2Q12Report.AsFiled.pdf)) ([http://www.static-ubs.com/global/en/about\\_ubs/investor\\_relations/other\\_filings/sec/jcr\\_content/par/linklist\\_b899/link\\_b4ec.1696567454.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/2Q12CapTable.Ratio.AsFiled.pdf](http://www.static-ubs.com/global/en/about_ubs/investor_relations/other_filings/sec/jcr_content/par/linklist_b899/link_b4ec.1696567454.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/2Q12CapTable.Ratio.AsFiled.pdf)) ([http://www.static-ubs.com/global/en/about\\_ubs/investor\\_relations/other\\_filings/sec/jcr\\_content/par/linklist\\_b899/link.1424415444.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/2Q12PresentationMaterials.AsFiled.pdf](http://www.static-ubs.com/global/en/about_ubs/investor_relations/other_filings/sec/jcr_content/par/linklist_b899/link.1424415444.file/bGluay9wYXR0PS9jb250ZW50L2RhbS91YnMvZ2xvYmFsL2Fib3V0X3Vicy9pbnZlc3Rvc19yZlRMTJfRmluYW5jaWFsX3JlcG9ydC5wZGY=/2Q12PresentationMaterials.AsFiled.pdf)) (<http://www.ise.ie/app/announcementDetails.aspx?ID=11300677>).

These documents have been filed in accordance with the Prospectus Directive.

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“Incorporation by reference” means that the incorporated documents are considered part of this offering circular and that we can disclose important information to you by referring you to those documents.

Any statement contained in this offering circular or in a document incorporated or deemed incorporated by reference into this offering circular will be deemed to be modified or superseded for purposes of this offering circular to the extent that a statement contained in any such subsequent document modifies or supersedes that statement. Any statement that is modified or superseded in this manner will no longer be a part of this offering circular, except as modified or superseded.

You may request a copy, at no cost, of any or all of the documents that are incorporated by reference into this offering circular, excluding exhibits (other than those that we specifically incorporate by reference into the documents that you request) by contacting us, by telephone or in writing, at the following address:

UBS AG  
Investor Relations  
P.O. Box  
CH-8098 Zurich  
Switzerland  
Phone: 011-41-44-234 41 00  
Fax: 011-41-44-234 34 15  
E-mail: *SH-investorrelations@ubs.com*  
Internet: *http://www.ubs.com/investors*

Information on UBS AG’s website is not incorporated by reference into this offering circular or other securities filings and is not part of this offering circular.

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## Where You Can Find More Information

UBS AG files periodic reports and other information with the SEC. You may read and copy any document that UBS AG files with the SEC on the SEC's website, [www.sec.gov](http://www.sec.gov), or at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 (in the United States) or at 1-202-942-8088 (outside the United States) for further information on the operation of its public reference room. As noted above, Form 6-Ks filed with the SEC are incorporated by reference into this offering circular only to the extent a Form 6-K is expressly identified above under "Incorporation of Information About UBS" or such Form 6-K specifically states that it is incorporated by reference into this offering circular. Much of this additional information may also be found on the UBS website at [www.ubs.com/investors](http://www.ubs.com/investors). Information on UBS AG's website is not incorporated by reference into this offering circular or other securities filings and is not part of this offering circular.

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## Overview

*This overview highlights selected information from, or incorporated by reference into, this offering circular, but does not contain all the information that may be important to you. You should read carefully this entire offering circular and those documents incorporated by reference in this document, including the “Risk Factors,” before making an investment decision.*

Words and expressions defined in the “Description of Notes” below or elsewhere in this offering circular have the same meanings in this summary. References in this offering circular to the “**Terms and Conditions**” are to the Terms and Conditions of the Notes attached as *Annex A* to this offering circular.

The Issuer:	UBS AG, acting through its Stamford branch.
The Notes:	USD 2,000,000,000 Tier 2 Subordinated Notes due 2022.
Risk Factors:	There are many factors that may affect the Issuer’s ability to fulfill its obligations under the Notes. Some of these factors are set out under “Risk Factors” 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 other 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 a Viability Event, each as defined below) and certain market risks.
Global Coordinator and Arranger:	UBS Securities LLC.
Joint Bookrunners:	UBS Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, RBS Securities Inc. and Wells Fargo Securities, LLC.
Conflict of Interest:	UBS Securities LLC is an affiliate of the Issuer and, as such, has a “conflict of interest” in this offering within the meaning of the Financial Industry Regulatory Authority (“ <b>FINRA</b> ”) Rule 5121. In addition, the Issuer will receive the net proceeds (excluding the underwriting discount) from the offering of the Notes, which creates an additional conflict of interest within the meaning of FINRA Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. UBS Securities LLC is not permitted to sell Notes in the offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.
Fiscal Agent:	U.S. Bank, N.A.
Calculation Agent:	U.S. Bank, N.A.
Irish Listing Agent:	Arthur Cox Listing Services Limited.
Issue Price:	100.00 percent of the principal amount of the Notes.
Form of the Notes:	The Notes will be represented by one or more Global Notes negotiable by endorsement, which will be deposited on or around the Issue Date with a custodian on behalf of DTC until the earliest of (x) redemption of the Notes; (y) cancellation of the Global Notes following the issuance of a Write-Down Notice; and (z) printing of definitive Notes. The Global Notes will be exchangeable in certain limited circumstances in whole, but not in part, for Notes in registered, definitive form.

Clearing System:	DTC and its direct and indirect participants, including Euroclear and Clearstream Luxembourg.
Issue Date:	August 17, 2012.
Currency:	U.S. dollars (“USD” or “\$”).
Denomination:	\$250,000 and integral multiples of \$1,000 in excess thereof.
Maturity:	Unless previously redeemed, purchased and cancelled or written down, the Notes will be repaid 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 from and including the Issue Date to (but excluding) the Maturity Date at a rate of 7.625 percent per annum.
Interest Payment Dates:	Subject to a Contingent Write-Down, interest will be payable semi-annually in arrears on February 17 and August 17 of each year, commencing on February 17, 2013.
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"> <li>(i) 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</li> <li>(ii) 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</li> <li>(iii) upon the occurrence of a Change in Progressive Capital Component Requirement or an Alignment Event at any time after the Issue Date (so long as, in the case of an Alignment Event, the Issuer has not given holders an Amendment Notice), at 101 percent 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;</li> </ul> <p><i>provided that</i> (x) in the case of any early redemption described in clauses (i) or (iii) 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 under “Description of Notes–Redemption and Purchase” below.</p>
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, <i>provided that</i> (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 stabilization measures in compliance with applicable law or in connection with any market making in the Notes) and (iii) no Viability Event (as defined below) 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 and Conditions, 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 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, all as more particularly described under “Description of Notes–Contingent Write-Down” below.

Trigger Event:

A Trigger Event will be deemed to have occurred 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 Relevant Trigger Capital Ratio as of the relevant Publication Date is below five percent, 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 under “Description of Notes–Contingent Write-Down” below.

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 Relevant Capital 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 percent 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 under “Description of



Notes–Contingent Write-Down” below.

As of the date of this offering circular, no High-Trigger Contingent Capital is outstanding.

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, all as more particularly described under “Description of Notes–Contingent Write-Down” below.

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 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, which provisions, if they had been included in the 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 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 under “Description of Notes–Amendments” below.

Taxation:

There is no authority that addresses the tax treatment of an instrument such as the Notes that is denominated as a subordinated debt instrument but that provides for a Contingent Write-Down under which a holder of the Notes could lose its entire investment in the Notes. It is therefore unclear whether the Notes should be treated as equity of UBS AG or as debt of UBS AG’s Stamford branch, for U.S. federal income tax purposes. We believe, however, that it is more likely than not that the Notes will be

treated as equity of UBS AG for U.S. federal income tax purposes, and the terms of the Notes require a United States holder (as defined under “Taxation–United States–Material U.S. Federal Income Tax Consequences”) and UBS AG (in the absence of a statutory, regulatory, administrative or judicial ruling to the contrary) to treat the Notes for U.S. federal income tax purposes in accordance with such characterization except to the extent relating to withholding and reporting obligations in respect of non-United States holders. However, because there is no authority that specifically addresses the tax treatment of the Notes, it is possible that the Notes could be treated for U.S. federal income tax purposes as debt of UBS AG’s Stamford branch, in which case you may be subject to adverse tax consequences. For a discussion of this alternative treatment of the Notes, see “Taxation–United States–Material U.S. Federal Income Tax Consequences–*Alternative Treatments*” below.

The United States federal income tax consequences of your investment in the Notes are uncertain. We urge you to read the more detailed discussion of the U.S. federal income tax treatment of the Notes set forth under “Taxation–United States–Material U.S. Federal Income Tax Consequences” on page 73 of this offering circular.

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 under “Description of Notes–Events of Default” below. 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–Risks relating to the Notes—There are limited remedies available under the Notes.” below.

Waiver of Certain Rights upon Insolvency of UBS AG:

Under the Terms and Conditions, each holder and beneficial owner of a Note, by accepting a direct or beneficial interest in such Note, will irrevocably waive its rights to any preference to which it may become entitled under Section 36a-428n(e) of the Connecticut General Statutes, under Section 4(j) of the International Bank Act of 1978, or under any other similar law to the extent necessary to give effect to the subordination provisions of the Notes. See “Regulation and Supervision of the Issuer in the United States” and “Description of Notes–Status and Subordination” below.

Issuer Substitution:

The Issuer may, without the consent of the holders, substitute any entity (whether or not such entity is organized under the laws of Switzerland) for itself as principal debtor under the Notes, *provided* that certain conditions are satisfied, as more particularly described under “Description of Notes–Substitution” below. Any such substitution may be considered to be a

	taxable exchange for U.S. federal income tax purposes.
Issuing Branch Substitution:	UBS AG may, without the consent of the holders, at any time after approximately one month after the Issue Date (i) cease to make payments of principal, interest and any other amounts due under the Notes and fulfill any of its other obligations and exercise any of its other rights and powers in respect of, or arising under, the Notes through its Stamford branch and (ii) commence making such payments, fulfilling such other obligations and exercising such powers and rights through its head offices in Basel and Zurich, <i>provided</i> that certain conditions are satisfied, as more particularly described under “Description of Notes–Substitution” below.
Use of Proceeds:	The net proceeds from the issue of the Notes will be used outside Switzerland at all times while any Notes are outstanding unless use in Switzerland is permitted under the Swiss taxation laws in force from time to time without payments in respect of the Notes becoming subject to withholding or deduction for Swiss withholding tax as a consequence of such use of proceeds in Switzerland. See “Use of Proceeds.”
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 under “Description of Notes–Status and Subordination” below.</p> <p>Holders have limited enforcement remedies under the Notes, as more particularly described under “Description of Notes–Events of Default” below.</p>
Expected Ratings:	<p>The Notes are expected to be rated BBB- by Standard &amp; Poor’s Ratings Services and BBB- by Fitch, Inc.</p> <p>A credit rating is not a recommendation to buy, sell, or hold securities. It may be subject to revision or withdrawal at any time by the assigning credit rating agency. Each credit rating is applicable only to the specific security to which it applies. Investors should make their own evaluation as to whether an investment in the Notes is appropriate.</p>
Governing Law:	The Notes, as well as any global or definitive instruments issued therefor, will be governed by Swiss law. The Fiscal Agency Agreement will be governed by English law. The Underwriting Agreement, dated as of August 10, 2012 (the “ <b>Underwriting Agreement</b> ”), among the Issuer and UBS Securities LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, RBS Securities Inc. and Wells Fargo Securities, LLC, as representatives of the several underwriters, will be governed by New York law.
Jurisdiction:	The courts of the city of Zurich, Switzerland, will have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes and/or any global or definitive instruments issued therefor.
Security Codes:	<p>CUSIP: 90261AAB8.</p> <p>ISIN: US90261AAB89.</p> <p>Swiss Security Code: 19.270.562.</p>

## Presentation of Financial Information

UBS's consolidated financial statements, which are incorporated by reference into this offering circular, have been prepared in accordance with IFRS as issued by the IASB and are denominated in Swiss francs, or "CHF," the legal tender of Switzerland.

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for the Swiss franc, expressed in United States dollars or "USD," per one Swiss franc. The "noon buying rate" is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on August 3, 2012 was USD 1.0312 per 1 CHF.

<b>Year Ended December 31,</b>	<b>High</b>	<b>Low</b>	<b>Average Rate<sup>(1)</sup> (USD per 1 CHF)</b>	<b>At Period End</b>
2006.....	0.8396	0.7575	0.8034	0.8200
2007.....	0.9087	0.7978	0.8381	0.8827
2008.....	1.0142	0.8171	0.9298	0.9369
2009.....	1.0016	0.8408	0.9261	0.9654
2010.....	1.0673	0.8610	0.9670	1.0673
2011.....	1.3706	1.0251	1.1284	1.0668

<b>Quarter Ended</b>	<b>High</b>	<b>Low</b>	<b>Average Rate<sup>(1)</sup> (USD per 1 CHF)</b>	<b>At Period End</b>
March 31, 2010 .....	0.9848	0.9210	0.9436	0.9498
June 30, 2010 .....	0.9513	0.8610	0.9080	0.9282
September 30, 2010.....	1.0254	0.9368	0.9885	1.0196
December 31, 2010 .....	1.0673	0.9984	1.0280	1.0673
March 31, 2011 .....	1.1113	1.0251	1.0768	1.0921
June 30, 2011 .....	1.2051	1.0819	1.1717	1.1886
September 30, 2011.....	1.3872	1.1008	1.2163	1.1013
December 31, 2011 .....	1.1616	1.0493	1.0957	1.0668
March 31, 2012 .....	1.1174	1.0466	1.0862	1.1079
June 30, 2012 .....	1.1082	1.0295	1.0678	1.0543

<b>Month</b>	<b>High</b>	<b>Low</b>
January 2012.....	1.0939	1.0466
February 2012.....	1.1174	1.0842
March 2012.....	1.1080	1.0738
April 2012 .....	1.1082	1.0870
May 2012.....	1.1005	1.0295
June 2012.....	1.0579	1.0340
July 2012 .....	1.0508	1.0043
August 2012 (through August 3, 2012) .....	1.0312	1.0115

(1) The average of the noon buying rates on the last business day of each full month during the relevant period.

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## Limitations on Enforcement of U.S. Laws Against UBS AG, Its Management and Others

UBS AG is a Swiss bank. Many of its directors and executive officers are resident outside the United States, and all or a substantial portion of the assets of its directors and executive officers are located outside the United States. As a result, it may be difficult for you to serve legal process within the United States upon the directors and executive officers of UBS AG or to enforce, outside the United States, judgments obtained against UBS AG or its directors or executive officers in courts in jurisdictions inside the United States in any action, including actions predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

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# Description of UBS AG

## Overview

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

On June 30, 2012, UBS's Basel 2.5 tier 1<sup>1</sup> ratio was 19.2%, invested assets stood at CHF 2,163 billion, equity attributable to UBS shareholders was CHF 54,716 million and market capitalization was CHF 42,356 million. On the same date, UBS employed 63,520 people.<sup>2</sup>

## Corporate Information

The legal and commercial name of the company is UBS AG. The company was incorporated under the name SBC AG on February 28, 1978 for an unlimited duration and entered in the Commercial Register of Canton Basel-City on that day. On December 8, 1997, the company changed its name to UBS AG. The company in its present form was created on June 29, 1998 by the merger of Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872). UBS AG is entered in the Commercial Registers of Canton Zurich and Canton Basel-City. The registration number is CH-270.3.004.646-4.

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 (“**Articles of Association**”) the purpose of UBS AG is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad.

UBS AG shares are listed on the SIX Swiss Exchange and the NYSE.

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.

As of the date of this offering circular, the current version of the Articles of Association is dated May 3, 2012.

## Business Overview

### Organizational Structure

UBS AG is the parent company of the UBS Group. The objective of UBS's group structure is to support the business activities of the parent company within an efficient legal, tax, regulatory and funding framework. None of the individual business divisions of UBS or the Corporate Center are legally independent entities; instead, they primarily perform their activities through the domestic and foreign offices of the parent bank.

In cases where it is impossible or inefficient to operate via the parent bank, due to local legal, tax or regulatory provisions, or where additional legal entities join the Group through acquisition, the business is operated on location

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<sup>1</sup> From December 31, 2011, UBS capital disclosures fall under the revised Basel II market risk framework, commonly referred to as Basel 2.5. The Basel 2.5 tier 1 ratio is the ratio of eligible Basel 2.5 tier 1 capital to Basel 2.5 risk-weighted assets. Eligible Basel 2.5 tier 1 capital can be calculated by starting with IFRS equity attributable to shareholders, adding treasury shares at cost and equity classified as obligation to purchase own shares, reversing out certain items, and then deducting certain other items. The most significant items reversed out for capital purposes are unrealized gains/losses on cash flow hedges and own credit gains/losses on liabilities designated at fair value. The largest deductions are treasury shares and own shares, goodwill and intangibles and certain securitization exposures.

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

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by legally independent Group companies. UBS AG's significant subsidiaries as of December 31, 2011 are listed in the 2011 Form 20-F on pages 394-396 (inclusive).

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

UBS operates as a group with five business divisions (Wealth Management, Wealth Management Americas, the Investment Bank, Global Asset Management and Retail & Corporate) and a Corporate Center. Each of the business divisions and the Corporate Center are described below. A full description of their businesses, strategies and clients, organizational structures, products and services can be found in the 2011 Form 20-F on pages 30-46 (inclusive).

#### ***Wealth Management***

Wealth Management delivers 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 platform provides clients with access to a wide array of products from third-party providers that complement UBS's own product lines.

#### ***Wealth Management Americas***

Wealth Management Americas provides advice-based solutions through financial advisers 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 U.S. business, the domestic Canadian business and international business booked in the U.S.

#### ***Investment Bank***

The Investment Bank provides a broad range of products and services in equities, fixed income, foreign exchange and commodities to corporate and institutional clients, sovereign and government bodies, financial intermediaries, alternative asset managers and UBS's wealth management clients. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a broad range of securities. It provides financial solutions to a wide range of clients, and offers advisory and analytics services in all major capital markets.

#### ***Global Asset Management***

Global Asset Management is 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 fund, real estate, infrastructure and private equity that can also be combined in multi-asset strategies. The fund services unit provides professional services, including fund set-up, accounting and reporting for traditional investment funds and alternative funds.

#### ***Retail & Corporate***

Retail & Corporate delivers comprehensive financial products and services to retail, corporate and institutional clients in Switzerland. It is an integral part of the universal bank model in Switzerland and delivers 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 transferring clients to Wealth Management due to increased client wealth.

#### ***Corporate Center***

The Corporate Center provides treasury services, and manages support and control functions for the business divisions and the Group in such areas as risk control, finance, legal and compliance, funding, capital and balance sheet management, management of non-trading risk, communications and branding, human resources, information technology, real estate, procurement, corporate development and service centers. It allocates most of the treasury income, operating expenses and personnel associated with these activities, which are referred to collectively as the Corporate Center – Core Functions, to the businesses based on capital and service consumption levels. The Corporate Center also encompasses the Legacy Portfolio, consisting of the centrally managed legacy portfolio formerly in the Investment Bank and the option to acquire the equity of the SNB StabFund.

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## Competition

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

## Recent Developments

### *Results as of and for the quarter ended June 30, 2012*

On July 31, 2012, UBS published its second quarter 2012 report and reported net profit attributable to UBS shareholders of CHF 425 million in the second quarter of 2012 compared with CHF 827 million in the first quarter. Pre-tax profit declined to CHF 951 million from CHF 1,304 million, primarily reflecting lower trading revenues, excluding own credit, as well as a decline in net fee and commission income and higher operating expenses. These declines were partly offset by an own credit gain of CHF 239 million compared with a loss of CHF 1,164 million in the prior quarter. Tax expense was CHF 253 million compared with CHF 476 million in the prior quarter. In addition, CHF 273 million of the second quarter net profit was attributable to non-controlling interests, mostly reflecting dividends on trust preferred securities, compared with CHF 1 million in the prior quarter.

Operating expenses increased by CHF 236 million to CHF 5,457 million. The second quarter included a credit to personnel expenses of CHF 84 million related to changes to a retiree medical and life insurance benefit plan in the US, while the prior quarter included a credit to personnel expenses of CHF 485 million related to changes to UBS's Swiss pension plan. In addition, the second quarter included net restructuring charges of CHF 9 million compared with net restructuring charges of CHF 126 million in the prior quarter. Excluding these items, operating expenses decreased by CHF 48 million to CHF 5,532 million. UBS employed 63,520 personnel as of June 30, 2012 compared with 64,243 personnel as of March 31, 2012. The decrease of 723 during the second quarter mainly related to UBS's continued focus on cost reduction across most business divisions.

The Basel 2.5 tier 1 capital ratio stood at 19.2% on June 30, 2012, an improvement of 50 basis points from March 31, 2012. Basel 2.5 tier 1 capital increased by CHF 1.6 billion, mainly due to lower tier 1 deductions, currency effects and net profit. Pro-forma Basel III RWA<sup>3</sup> were estimated to be CHF 305 billion on a fully applied basis at the end of the second quarter, a CHF 45 billion decline from the prior quarter. This decrease was mainly due to a revised treatment of the option to acquire the SNB StabFund's equity, lower securitization uplift due to Legacy Portfolio asset sales and the reduction in credit value adjustment VaR RWA, partially offset by the revised treatment in deferred tax assets. The balance sheet stood at CHF 1,412 billion on June 30, 2012, up from CHF 1,366 billion on March 31, 2012.

Wealth Management pre-tax profit was CHF 502 million in the second quarter of 2012 compared with CHF 803 million in the previous quarter, primarily as the first quarter included a credit to personnel expenses of CHF 237 million related to changes to the Swiss pension plan. Adjusted for this item and restructuring charges of CHF 1 million in the second quarter and CHF 12 million in the first quarter, pre-tax profit decreased by CHF 75 million to CHF 503 million. Total operating income decreased by CHF 35 million to CHF 1,734 million from CHF 1,769 million, due to a decline in non-recurring fees and trading income, reflecting lower client activity levels. Operating expenses increased to CHF 1,232 million from CHF 966 million. The gross margin on invested assets decreased by 4 basis points to 89 basis points, mainly reflecting lower client activity levels. Net new money improved to CHF 9.5 billion from CHF 6.7 billion in the previous quarter. Invested assets increased to CHF 783 billion. The annualized net new money growth rate was 4.9% compared with 3.6% in the previous quarter.

Wealth Management Americas pre-tax profit in the second quarter of 2012 was USD 211 million, a slight increase from the prior quarter's profit of USD 209 million, as a 1% rise in operating income was only partially offset by an increase in operating expenses. The second quarter's result included USD 63 million of realized gains in the

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<sup>3</sup> The calculation of the pro-forma Basel III risk-weighted assets combines existing Basel 2.5 risk-weighted assets, a revised treatment for low-rated securitization exposures which are no longer deducted from capital but are risk-weighted with 1250%, and new capital charges based on models. Some of these new models still require regulatory approval and therefore the pro-forma calculations include estimates of the impact of these new capital charges which will be refined as models and the associated systems are enhanced.



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investment portfolio, an increase over the prior quarter, and an increase in net fee and commission income that offset the combined effect of reduced net interest and trading income and higher operating expenses. Operating income increased by USD 19 million to USD 1,587 million from USD 1,568 million. Total operating expenses increased by USD 16 million to USD 1,375 million from USD 1,359 million, primarily due to a 7% increase in non-personnel expenses. Net new money totaled USD 3.8 billion compared with USD 4.6 billion in the first quarter. The annualized net new money growth rate for the second quarter was 1.9%, down from 2.4% in the prior quarter. The gross margin on invested assets decreased by 1 basis point to 79 basis points.

The Investment Bank recorded a pre-tax loss of CHF 130 million in the second quarter of 2012 compared with a pre-tax profit of CHF 730 million in the first quarter of 2012. Revenues declined significantly in the securities business amid challenging market conditions. In addition, revenues were impacted by a loss of CHF 349 million related to the Facebook initial public offering. Pro-forma Basel III RWA<sup>3</sup> decreased to CHF 170 billion. Total operating income decreased by 40% to CHF 1,736 million in the second quarter of 2012 from CHF 2,903 million in the previous quarter. In the investment banking division, total revenues decreased by 6% to CHF 372 million from CHF 396 million, as a reduction in fees was partially offset by lower risk management premiums. Equities revenues decreased 75% to CHF 247 million from CHF 992 million, with declines across most businesses, and reflecting the impact of the loss related to the Facebook initial public offering. The comparison with the prior quarter was also affected by the adverse effect of an improvement in the own credit calculation methodology and the correction of own credit items relating to prior periods. Fixed income, currencies and commodities revenues decreased 27% to CHF 1,099 million from CHF 1,501 million as escalating eurozone fears and slower growth in the U.S. created challenging market conditions. Total operating expenses decreased 14% to CHF 1,867 million from CHF 2,173 million. Second quarter included a credit of CHF 71 million related to changes to a retiree benefit plan in the U.S. and CHF 23 million of restructuring charges, while first quarter included a credit of CHF 38 million related to changes to the Swiss pension plan and CHF 101 million of restructuring charges.

Global Asset Management pre-tax profit in the second quarter of 2012 was CHF 118 million compared with CHF 156 million in the first quarter, primarily due to lower performance fees, especially in alternative and quantitative investments. Total operating income was CHF 446 million compared with CHF 478 million in the first quarter. Total operating expenses were CHF 328 million compared with CHF 322 million in the first quarter. The second quarter included a credit to personnel expenses of CHF 11 million related to changes to a retiree benefit plan in the US. The first quarter included a credit to personnel expenses related to changes to the Swiss pension plan of CHF 20 million and restructuring charges of CHF 6 million. The annualized net new money growth rate was negative 2.5% compared with negative 5.7% in the first quarter. Excluding money market flows, net new money inflows from third parties were CHF 3.4 billion compared with outflows of CHF 2.9 billion in the first quarter as the level of client portfolio re-alignments seen in the first quarter abated and third party inflows rebounded in the second quarter. The inflows were mainly into traditional investments, particularly indexed equity. Total net new money flows, excluding money market funds, were positive in the second quarter at CHF 1.2 billion. The total gross margin was 32 basis points compared with 34 basis points in the first quarter, mainly due to lower performance fees in alternative and quantitative investments.

Retail & Corporate pre-tax profit was CHF 399 million compared with CHF 575 million in the previous quarter, which included a credit to personnel expenses of CHF 190 million related to changes to the Swiss pension plan. Adjusted for this item and restructuring charges (CHF 4 million releases in the second quarter, and CHF 7 million charges in the first quarter), pre-tax profit increased by CHF 3 million to CHF 395 million. Both the retail and corporate businesses continued to record strong net new business volume growth. Total operating income decreased by CHF 9 million to CHF 927 million from CHF 936 million in the prior quarter. Operating expenses increased to CHF 527 million from CHF 361 million in the previous quarter, which included a credit to personnel expenses of CHF 190 million related to changes to the Swiss pension plan. Adjusted for these changes and restructuring charges, operating expenses were down by CHF 13 million. Annualized net new business volume growth was 3.3% compared with 4.2% in the previous quarter. Both the retail and corporate businesses recorded net inflows, mainly in client assets, but also from loans, in line with the strategy to grow business in high-quality loans.

Corporate Center – Core Functions pre-tax result in the second quarter was a loss of CHF 19 million compared with a loss of CHF 1,239 million in the previous quarter. The second quarter included an own credit gain of CHF 239 million compared with a loss of CHF 1,164 million in the prior quarter. Treasury income remaining in Corporate Center – Core Functions after allocations to the business divisions was negative CHF 64 million compared with positive CHF 79 million in the prior quarter.

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The Legacy Portfolio pre-tax result was a loss of CHF 119 million compared with a gain of CHF 89 million in the previous quarter. The two primary reasons for this were that the value of the option to acquire the SNB StabFund's equity increased by CHF 45 million, CHF 82 million less than the increase in the prior quarter, and that a loss of CHF 81 million was recorded in the remainder of the Legacy Portfolio compared with a gain of CHF 37 million in the prior quarter.

**Trend Information (Outlook statement as presented in UBS's second quarter 2012 report issued on July 31, 2012)**

As in recent quarters, the degree of progress towards achieving sustained and material improvements to eurozone sovereign debt and European banking system issues, as well as the extent of uncertainty surrounding geopolitical tensions, the global economic outlook and the U.S. fiscal “cliff”, will continue to exert a strong influence on client confidence and, thus, activity levels in the third quarter of 2012. Failure to make progress on these key issues, accentuated by the reduction in market activity levels typically seen in the third quarter, would make further improvements in prevailing market conditions unlikely and would thus generate headwinds for revenue growth, net interest margins and net new money. Despite these challenges, UBS remains confident that its asset-gathering businesses as a whole will continue to attract net new money, reflecting UBS's clients' steadfast trust in the firm and their recognition of its continuing efforts to strengthen itself. UBS will strive to deliver on its strategy, which focuses on prudent liquidity management, reducing risk and complexity, and improving its position as one of the best-capitalized banks in the world. UBS has the utmost confidence in its ability to deliver on its strategy by adapting its execution in a changing environment.

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

UBS AG is subject to, and 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 supervision and control of the GEB remains with the BoD. No member of one board may be a member of the other.

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

**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 FINMA circular 08/24, the NYSE rules and the rules and regulations of other securities exchanges on which UBS's shares are listed, if any, applying the stricter 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.

**Members of the Board of Directors**

<b>Members and business addresses</b>	<b>Title</b>	<b>Term of office</b>	<b>Current positions outside UBS AG</b>
Axel A. Weber  UBS AG, Bahnhofstrasse 45,	Chairman	2013	Member of the Group of Thirty, Washington, D.C.; research fellow at the Center for Economic Policy

<b>Members and business addresses</b>	<b>Title</b>	<b>Term of office</b>	<b>Current positions outside UBS AG</b>
P.O. Box, CH-8001, Zurich, Switzerland			Research, London, and the Center for Financial Research, Cologne; senior research fellow at the Center for Financial Studies, Frankfurt/Main; member of the European Money and Finance Forum; member of the Monetary Economics and International Economics Councils of the Verein für Socialpolitik; member of the Advisory Board of the German Market Economy Foundation; member of the Advisory Council of the Goethe University, Frankfurt/Main. Honorary doctor at the University of Duisburg-Essen and Konstanz.
Michel Demaré  ABB Ltd., Affolternstrasse 44, P.O. Box 5009, CH-8050, Zurich, Switzerland	Independent Vice Chairman	2013	CFO and member of the Group Executive Committee of ABB; member of the board of Syngenta and of the IMD Foundation, Lausanne.
David Sidwell  UBS AG, Bahnhofstrasse 45, P.O. Box, CH-8001, Zurich, Switzerland	Senior Independent Director	2013	Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; trustee of the International Accounting Standards Committee Foundation, London; Chairman of the board of Village Care, New York; Director of the National Council on Aging, Washington D.C.
Rainer-Marc Frey  Office of Rainer-Marc Frey, Seeweg 39, CH-8807 Freienbach, Switzerland	Member	2013	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,

<b>Members and business addresses</b>	<b>Title</b>	<b>Term of office</b>	<b>Current positions outside UBS AG</b>
			Freienbach.
<p>Ann F. Godbehere</p> <p>UBS AG, Bahnhofstrasse 45, P.O. Box, CH-8001, Zurich, Switzerland</p>	Member	2013	<p>Board member and Chairperson of the Audit Committees of Prudential plc, Rio Tinto plc, Rio Tinto Limited, London, Atrium Underwriters Ltd., Atrium Underwriting Group Ltd., London and Arden Holdings Ltd., Bermuda. Member of the board of British American Tobacco plc.</p>
<p>Axel P. Lehmann</p> <p>Zurich Financial Services, Mythenquai 2, H-8002, Zurich, Switzerland</p>	Member	2013	<p>Member of the Group Executive Committee, Group Chief Risk Officer and Regional Chairman Europe of Zurich Financial Services; Chairman of the board of Farmers Group, Inc. and Chairman of the board of the Institute of Insurance Economics at the University of St. Gallen; member and past Chairman of the Chief Risk Officer Forum, and member of the executive committee of the International Financial Risk Institute Foundation.</p>
<p>Wolfgang Mayrhuber</p> <p>Deutsche Lufthansa AG, Flughafen Frankfurt am Main 302, D-60549 Frankfurt am Main, Germany</p>	Member	2013	<p>Chairman of the Supervisory Board and Chairperson of the Mediation, Nomination and Executive Committees of Infineon Technologies AG, as well as member of the supervisory boards of Munich Re Group, BMW Group, Lufthansa Technik AG and Austrian Airlines AG; member of the board of HEICO Corporation, Hollywood, FL; member of the executive board of Acatech (Deutsche Akademie der Technikwissenschaften) and trustee of the American</p>

<b>Members and business addresses</b>	<b>Title</b>	<b>Term of office</b>	<b>Current positions outside UBS AG</b>
			Academy of Berlin.
<p>Helmut Panke</p> <p>BMW AG, Petuelring 130, D-80788 Munich, Germany</p>	Member	2013	Member of the board and Chairperson of the Antitrust Compliance Committee of Microsoft Corporation; member of the board and Chairperson of the Board Safety & Risk Committee of Singapore Airlines Ltd.; member of the Supervisory Board of Bayer AG.
<p>William G. Parrett</p> <p>UBS AG, Bahnhofstrasse 45, P.O. Box, CH-8001, Zurich, Switzerland</p>	Member	2013	Independent Director and Chairperson of the Audit Committee of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc.; past Chairman of the board of the United States Council for International Business and of United Way Worldwide; member of the Board of Trustees of Carnegie Hall.
<p>Isabelle Romy</p> <p>Froriep Renggli, Bellerivestrasse 201, 8034, Zurich, Switzerland</p>	Member	2013	Partner at Froriep Renggli, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; Vice Chairman of the Sanction Commission of the SIX Swiss Exchange.
<p>Beatrice Weder di Mauro</p> <p>UBS AG, Bahnhofstrasse 45, P.O. Box, CH-8001, Zurich, Switzerland</p>	Member	2013	Professor at the Johannes Gutenberg University, Mainz; research fellow at the Center for Economic Policy Research, London; member of the board of Roche Holding Ltd., Basel; member of the Supervisory Board of ThyssenKrupp AG, Essen, and of the Deutsche Investitions- und Entwicklungsgesellschaft, Cologne.
<p>Joseph Yam</p> <p>18 B South Bay</p>	Member	2013	Executive Vice President of the China Society for Finance and Banking;

<b>Members and business addresses</b>	<b>Title</b>	<b>Term of office</b>	<b>Current positions outside UBS AG</b>
Towers 59 South Bay Rd. Hong Kong			Chairman of the board of Macroprudential Consultancy Limited and member of the international advisory councils of a number of government and academic institutions. Board member and Chairperson of the Risk Committee of the China Construction Bank. Member of the board of Johnson Electric Holdings Limited.

### ***Organizational principles and structure***

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

The BoD committees comprise the Audit Committee, the Corporate Responsibility Committee, the Governance and Nominating Committee, the Human Resources and Compensation Committee and the Risk Committee. The BoD has also established a Special Committee in connection with the unauthorized trading incident announced in September 2011.

#### ***Audit Committee***

The Audit Committee (“AC”) comprises at least three 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 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) 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 to the AGM.

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

#### **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

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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 approved by the BoD.

The business address of the members of the GEB is UBS AG, Bahnhofstrasse 45, CH-8001 Zurich, Switzerland.

***Members of the Group Executive Board***

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

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

**Potential Conflicts of Interest**

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

**Major Shareholders of UBS AG**

Under the Federal Act on Stock Exchanges and Securities Trading of March 24, 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:

- September 30, 2011: Norges Bank (the Central Bank of Norway), 3.04%;
- March 12, 2010: Government of Singapore Investment Corp., 6.45%;

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- December 17, 2009: BlackRock Inc., New York, USA, 3.45%.

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

As of June 30, 2012, the following shareholders (acting in their own names 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 (11.19%); the U.S. securities clearing organization DTC (Cede & Co.) New York, "The Depository Trust Company" (7.05%); Government of Singapore Investment Corp., Singapore (6.40%) and Nortrust Nominees Ltd., London (4.43%).

UBS holds UBS AG shares primarily to cover employee share and option programs. A smaller number are held by the Investment Bank for trading purposes, where the Investment Bank engages in its market-making activities in UBS AG shares and related derivative products. As of June 30, 2012, UBS held a stake of UBS AG's shares, which corresponded to less than 3.00% of UBS AG's total share capital. As of December 31, 2011, UBS had disposal positions relating to 467,465,923 voting rights, corresponding to 12.20% of the total voting rights of UBS AG. They consisted mainly (9.12%) of voting rights on shares deliverable in respect of employee awards and included the number of shares that may be issued, upon certain conditions, out of conditional capital to the Swiss National Bank ("SNB") in connection with the transfer of certain illiquid securities and other positions to a fund owned and controlled by the SNB.

Further details on the distribution of UBS AG's shares, also by region and shareholders' type, and on the number of shares registered, non-registered and carrying voting rights as of December 31, 2011 can be found in the 2011 Form 20-F on pages 199-203 (inclusive).

### **Litigation and Regulatory Matters**

Other than as disclosed in UBS's Second Quarter 2012 Report on pages 96-102 (inclusive), there have been no material changes to the status of pending litigation and regulatory matters.

### **Other Contingent Liabilities**

Other than as disclosed in UBS's Second Quarter 2012 Report on pages 102-103 (inclusive), there have been no material changes to the status of other contingent liabilities.



## Selected Financial Information relating to UBS

The following table sets out selected financial information relating to UBS and is derived from the unaudited consolidated financial statements of UBS as of and for the quarter ended June 30, 2012 (including comparative figures as of June 30, 2011) and the audited consolidated financial statements of UBS as of and for the years ended December 31, 2011, December 31, 2010 and December 31, 2009, which are incorporated elsewhere in this offering circular. The financial statements of UBS Group are prepared in accordance with IFRS. The financial information presented below should be read in conjunction with such financial statements and the notes thereto.

CHF million, except where indicated	As of or for the quarter ended		As of or for the year ended		
	6/30/12	6/30/11	12/31/11	12/31/10	12/31/09
	unaudited		audited, except where indicated		
<b>Group results</b>					
Operating income	6,408	7,171	27,788	31,994	22,601
Operating expenses	5,457	5,516	22,439	24,539	25,162
Operating profit from continuing operations before tax	951	1,654	5,350	7,455	(2,561)
Net profit attributable to UBS shareholders	425	1,015	4,159	7,534	(2,736)
Diluted earnings per share (CHF)	0.11	0.26	1.08	1.96	(0.75)
<b>Key performance indicators, balance sheet and capital management</b>					
<b>Performance</b>					
Return on equity (RoE) (%) <sup>1</sup>	4.7	12.0	8.5*	16.7*	(7.8)*
Return on risk-weighted assets, gross (%) <sup>2</sup>	11.8	15.3	13.7*	15.5*	9.9*
Return on assets, gross (%) <sup>3</sup>	1.9	2.4	2.1*	2.3*	1.5*
<b>Growth</b>					
Net profit growth (%) <sup>4</sup>	(48.6)	(43.8)	(44.8)*	N/A*	N/A*
Net new money growth (%) <sup>5</sup>	1.8	1.7			
<b>Efficiency</b>					
Cost/income ratio (%) <sup>6</sup>	85.1	77.1	80.5*	76.5*	103.0*
<b>Capital strength</b>					
BIS tier 1 capital ratio (%) <sup>7,8</sup>	19.2	18.1	15.9*	17.8*	15.4*
FINMA leverage ratio (%) <sup>7,9</sup>	5.6*	4.8*	5.4*	4.4*	3.9*
<b>Balance sheet and capital management</b>					
Total assets	1,412,043		1,419,162	1,317,247	1,340,538
Equity attributable to UBS shareholders	54,716		53,447	46,820	41,013
Total book value per share (CHF)	14.60		14.26*	12.35*	11.65*
Tangible book value per share (CHF)	12.00		11.68*	9.76*	8.52*
BIS core tier 1 capital ratio (%) <sup>7</sup>	17.2		14.1*	15.3*	
BIS total capital ratio (%) <sup>7</sup>	21.8	19.5	17.2*	20.4*	19.8*
BIS risk-weighted assets <sup>7</sup>	214,676		240,962*	198,875*	206,525*
BIS tier 1 capital <sup>7</sup>	41,210		38,370	35,323	31,798
<b>Additional information</b>					
Invested assets (CHF billion) <sup>10</sup>	2,163		2,088*		
Personnel (full-time equivalents)	63,520	65,707	64,820*	64,617*	65,233*
Market capitalization	42,356	58,745	42,843*	58,803*	57,108*

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\* unaudited

<sup>1</sup> Net profit attributable to UBS shareholders on a year-to-date basis (annualized as applicable) / average equity attributable to UBS shareholders (year-to-date basis). <sup>2</sup> Operating income before credit loss (expense) or recovery on a year-to-date basis (annualized as applicable) / average risk-weighted assets (year-to-date basis). Based on Basel 2.5 risk-weighted assets from the first quarter of 2012 onwards. Based on Basel II risk-weighted assets for periods prior to the first quarter of 2012. <sup>3</sup> Operating income before credit loss (expense) or recovery on a year-to-date basis (annualized as applicable) / average total assets (year-to-date basis). <sup>4</sup> Change in net profit attributable to UBS shareholders from continuing operations between current and comparison periods / net profit attributable to UBS shareholders from continuing operations of comparison period. Not meaningful and not included if either the reporting period or the comparison period is a loss period. <sup>5</sup> Net new money for the period (annualized as applicable) / invested assets at the beginning of the period. Group net new money includes net new money for Retail & Corporate and excludes interest and dividend income. Commencing in the first quarter of 2012, UBS has replaced the key performance indicator “net new money” with “net new money growth”. The relevant data is included in this table to the extent available in the second quarter 2012 report. <sup>6</sup> Operating expenses / operating income before credit loss (expense) or recovery. <sup>7</sup> Capital management data as of June 30, 2012 and December 31, 2011 is disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not reported for June 30, 2011, December 31, 2010 and December 31, 2009. The comparative information under the Basel II framework is therefore provided, to the extent reported in the second quarter 2012 report or in the annual report 2011. <sup>8</sup> BIS tier 1 capital / BIS risk-weighted assets. <sup>9</sup> FINMA tier 1 capital / average adjusted assets as per definition by the Swiss Financial Market Supervisory Authority (FINMA). <sup>10</sup> In the first quarter of 2012, UBS has refined the definition of invested assets. Prior periods have been adjusted accordingly and are included in this table to the extent reported in the second quarter 2012 report. Group invested assets include invested assets for Retail & Corporate.

## Share Capital

As reflected in its Articles of Association most recently registered with the Commercial Register of Zurich and the Commercial Register of Basel-City, UBS AG has (i) fully paid and issued share capital of CHF 383,212,189.90, divided into 3,832,121,899 registered shares with a par value of CHF 0.10 each, (ii) no authorized capital and (iii) conditional share capital in the amount of CHF 62,863,932.60, comprising 628,639,326 registered shares with a par value of CHF 0.10 each.

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## Regulation and Supervision of the Issuer in the United States

UBS's operations in the U.S. are subject to a variety of regulatory regimes. A discussion of the regulation and supervision of UBS's operations in the U.S. and in other jurisdictions can be found in the 2011 Form 20-F, and in UBS's subsequent quarterly and interim reports, which have been filed with the SEC and are incorporated into this offering circular as described under "Incorporation of Information About UBS" above. The U.S. branches of UBS, including the Stamford branch, are also subject to direct supervision and regulation by the jurisdictions by which they were licensed, as well as by the Board of Governors of the Federal Reserve System. A description of the regulatory structure applicable to the Issuer is set forth below.

### State Regulation of the Issuer

The Stamford branch is a branch of UBS AG licensed by the Banking Commissioner of the State of Connecticut (the "**Commissioner**") under the Banking Law of Connecticut (the "**Connecticut Banking Law**"). The Stamford branch is examined by the State of Connecticut Banking Department (the "**Connecticut Banking Department**") and the Federal Reserve Bank of New York and is subject to Connecticut and U.S. federal banking laws and regulations applicable to a foreign bank that operates a Connecticut branch.

Under the Connecticut Banking Law and applicable regulations, UBS AG must keep assets on deposit in an amount that varies based upon the liabilities of the Stamford branch and certain other factors for the protection of depositors and the public interest. Under the Connecticut Banking Law, the Connecticut Banking Department is also empowered to require a branch of a foreign bank to maintain in Connecticut specified assets equal to such percentage of the branch's liabilities as the Connecticut Banking Department may prescribe by regulation. At present, the Connecticut Banking Department has set this percentage at zero percent, although specific asset maintenance requirements may be imposed upon individual branches on a case-by-case basis.

The Connecticut Banking Law authorizes the Commissioner to take possession of the business and property in Connecticut of a Connecticut branch of a foreign bank under certain defined circumstances upon the Commissioner's determination that such action is necessary for the protection of the interests of the creditors of the foreign bank's business in Connecticut or for the protection of the public interest. Those circumstances include the violation of any law, unsafe business procedures, capital impairments, the suspension of payment of obligations, the initiation of liquidation proceedings against the foreign bank in the jurisdiction of its domicile or elsewhere or the existence of reason to doubt the ability or willingness of the bank to pay in full the claims of its creditors. In liquidating or dealing with the business of the Stamford branch after taking possession of the Stamford branch, only the claims of creditors unaffiliated with UBS AG that arose out of transactions with the Stamford branch would be accepted by the Commissioner for payment out of UBS AG's assets located in Connecticut. As described below, any such proceedings by the Connecticut Banking Department may be superseded by comparable federal proceedings.

Under the Connecticut Banking Law, the Stamford branch is generally subject to the same lending limits to a single borrower, expressed as a ratio of capital, that apply to a Connecticut state-chartered bank, except that for the Stamford branch such limits are based on the capital of UBS AG.

### U.S. Federal Regulation of the Stamford Branch

Because UBS AG maintains federally licensed branches in the United States, the Office of the Comptroller of the Currency (the "**OCC**") has the authority to take possession of all the property and assets of UBS AG in the United States, including the Stamford branch, if any creditor of UBS AG has an unsatisfied judgment against one of the federally licensed offices of UBS AG or if the OCC determines that UBS AG is insolvent. If the OCC does so, only claims of unaffiliated creditors against a branch or agency of UBS AG in the United States may be satisfied out of the property and assets of UBS AG in the United States, and once those claims have been satisfied any remaining assets would be turned over to the head office of UBS AG or, if applicable, its liquidator or receiver. This proceeding would supersede the Connecticut proceedings described above.

The Stamford branch is also subject to U.S. federal laws and regulations, primarily under the International Banking Act of 1978 (the "**IBA**"). Under the IBA, all branches and agencies of foreign banks in the United States are subject to reporting and examination requirements similar to those imposed on domestic banks that are owned or controlled by U.S. bank holding companies, and most U.S. branches and agencies of foreign banks, including the Stamford branch, are subject to reserve requirements on deposits pursuant to regulations of the Federal Reserve Board. Under the IBA, UBS AG is restricted from opening new full service branches and establishing or acquiring subsidiary banks in states outside of its "home state," which is Connecticut, unless permitted by state law. The IBA and the

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Bank Holding Company Act of 1956, as amended (the “**BHCA**”), also restrict UBS AG’s ability to engage in non-banking activities in the United States. State-licensed branches, such as the Stamford branch, are not permitted to engage in any type of activity that is not permissible for federally licensed branches, which in turn are generally subject to the regulations pertaining to national banks, unless the Federal Reserve Board has determined that the activity is consistent with sound banking practice. In addition to state-imposed limitations, state-licensed branches are subject to the same limitations on loans made to a single borrower as are applicable to federally-licensed branches.

Federal law authorizes the Federal Reserve Board to terminate the activities of a U.S. branch of a foreign bank if it determines that the foreign bank is not subject to comprehensive supervision on a consolidated basis in its home country (unless the home country is making demonstrable progress toward establishing such supervision), or that there is reasonable cause to believe that the foreign bank, or an affiliate, has violated the law or engaged in an unsafe or unsound banking practice in the United States, and as a result the continued operation of the branch would be inconsistent with the public interest or the purposes of the IBA or BHCA. If the Stamford branch were to be closed by the Federal Reserve Board pursuant to the authority granted under federal law, or UBS AG were voluntarily to discontinue the operations of the Stamford branch, the holders of the Notes would have recourse only against UBS AG, subject to any arrangements made for the payment of the liabilities of the relevant branch by the relevant regulatory authorities.

**For a description of the regulation and supervision of UBS AG more generally, please see the 2011 Form 20-F and the other documents incorporated by reference into this offering circular.**

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## Use of Proceeds

The net proceeds of the issue of the Notes, expected to amount to approximately USD 1,969,500,000 after deduction of the commission and the other expenses incurred in connection with the issue of the Notes, will augment the regulatory capital base of UBS AG.

The net proceeds from the issue of the Notes will be used for general banking purposes of UBS outside Switzerland at all times while any Notes are outstanding unless use in Switzerland is permitted under the Swiss taxation laws in force from time to time without payments in respect of the Notes becoming subject to withholding or deduction for Swiss withholding tax as a consequence of such use of proceeds in Switzerland.

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## Description of Notes

The following is a summary of the material terms and provisions of the Notes. The following summary does not purport to be a complete description of the Notes and is subject to the detailed provisions of, and qualified in its entirety by reference to, the Terms and Conditions set forth in *Annex A* and which is the only document that governs the rights of the holders and the obligations of UBS AG concerning the Notes.

### Fiscal Agency Agreement

The Notes will be issued under a fiscal agency agreement, to be dated as of the Issue Date (the “**Fiscal Agency Agreement**”), among UBS AG, acting through its Stamford branch, and U.S. Bank, N.A., in its capacity as fiscal agent and calculation agent (the “**Fiscal Agent**”). The Fiscal Agent is the agent of the Issuer, is not a trustee for the holders of the Notes and does not have the same responsibilities or duties to act for those holders as would a trustee.

A copy of the Fiscal Agency Agreement is available for inspection at the office of the Fiscal Agent located at 100 Wall Street, Suite 1600, New York, NY 10005, United States.

### Amount, Denomination and Form

The initial aggregate principal amount of the Notes will be USD 2,000,000,000. The Notes will be issued in minimum denominations of USD 250,000 each and integral multiples of USD 1,000 in excess thereof.

The Notes and all rights in connection therewith will be documented in the form of one or more global notes negotiable by endorsement (*Ordrepapier*), all of which will be made out to Cede & Co. as nominee of DTC and deposited on the Issue Date by the Fiscal Agent with a custodian on behalf of DTC until the earliest of (x) redemption of the Notes, (y) cancellation of the Global Notes following the issuance of a Write-Down Notice and (z) printing of definitive Notes (*Wertpapiere*) in registered form (“**Definitive Notes**”). So long as the Notes are represented by more than one Global Note, all rights under the Global Notes will be exercised concurrently and in a uniform manner in respect of all Notes outstanding (it being understood that any instructions received by the holder of any Global Note from any indirect holder as described under “–Meetings of Holders” below need not be the same as those instructions received from any other indirect holder).

Pursuant to the terms of any Global Note, the Global Note may not be held by or transferred to any person other than DTC or its nominee or a successor to DTC or its nominee. A Global Note may be transferred without the prior written consent of the Fiscal Agent, but only as described in the Global Note.

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

Neither the Issuer nor any holder of Notes will at any time have the right to effect or demand the conversion of any Global Note into, or the delivery of, uncertificated securities (*Wertrechte*) or Notes in definitive form (*Wertpapiere*) except as provided under “–Definitive Notes” below.

All references to DTC in this “Description of Notes” include any successor depositary appointed by the Issuer in accordance with the Terms and Conditions.

### Definitive Notes

No physical delivery of the Notes will be made unless and until Definitive Notes are printed. Definitive Notes may be printed, and all (but not only some of) the Global Notes may be exchanged, in whole, but not in part, for Definitive Notes, at the request of the holder of any Global Note if (i) printing of the Definitive Notes is required by Swiss or other applicable laws or regulations in connection with the enforcement of rights under the Notes, (ii) DTC notifies the Issuer that it is unwilling or unable to continue as a depositary or at any time ceases to be a “clearing agency” registered under the Exchange Act and a successor depositary so registered is not appointed by the Issuer within 90 days of that notice, or for any other reason the Notes cease to be held by a registered clearing agency in the form of one or more Global Notes, (iii) any Global Note is no longer deposited with a custodian on behalf of DTC or (iv) the Notes are represented by more than one Global Note and (a) the holder of or depositary for each Global Note is no longer the same person or (b) each Global Note is no longer deposited with the same custodian on behalf of DTC. However, no Definitive Notes will be printed if the Issuer has given a Write-Down Notice as provided under “–Contingent Write-Down” below.

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If the Global Notes are to be exchanged for Definitive Notes, the Issuer will procure the prompt delivery (free of charge) of Definitive Notes, duly authenticated without coupons, to, and which Definitive Notes will be registered in the name of, the person(s) designated by DTC on behalf of the holder of each Global Note in an aggregate principal amount equal to the principal amount of such Global Note against the surrender of such Global Note at the specified office of the Fiscal Agent within 30 days of the date on which the holder of any Global Note requested that Definitive Notes be printed and the Global Notes exchanged pursuant to the immediately preceding paragraph. Definitive Notes will be issued in denominations of USD 250,000 and integral multiples of USD 1,000 in excess thereof.

Should Definitive Notes be printed, such Definitive Notes will not be issued in bearer form but exclusively in registered form for U.S. tax purposes, whereby title will pass exclusively by registration of the holders in a noteholders' register (the “**Register**”) to be established and maintained by a registrar (the “**Registrar**”), which is appointed by the Issuer and acting on its behalf after consultation with the Fiscal Agent and will be duly notified to the holders as provided under “–Notices” below. In case of printing of Definitive Notes, no individually certificated coupons will be printed. The holders must present the Definitive Notes in order to claim payments under the Notes. Only holders duly registered in the Register will be entitled to payments under the Definitive Notes. Definitive Notes may be transferred upon presentation of the Definitive Notes at the specified office of the Registrar or the Fiscal Agent. No transfer of a Definitive Note will be valid unless and until entered in the Register.

## **Status and Subordination**

### **Status**

The Notes will 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 under “–Subordination” below.

### **Subordination**

In the event of (i) a Bankruptcy Event (as defined below) 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 reorganization, 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 reorganization, reconstruction, amalgamation or substitution (x) (except in the case of any such substitution described under “–Substitution” below) have previously been approved by a resolution of the holders as described under “–Meetings of Holders” below, and (y) do not provide that the Notes will become redeemable in accordance with the 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 will, 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.

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

“**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.

“**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.

Under the Terms and Conditions, each holder and beneficial owner of a Note, by accepting a direct or beneficial interest in such Note, will irrevocably waive its rights to any preference to which they may become entitled under Section 36a-428n(e) of the Connecticut General Statutes, under Section 4(j) of the International Bank Act of 1978, or under any other similar law to the extent necessary to give effect to the subordination provisions of the Notes. See “Regulation and Supervision of the Issuer in the United States” above.

In order to implement this waiver, each holder and beneficial owner of a Note, by accepting a direct or beneficial interest in such Note, will be deemed to have agreed that should the Commissioner or the OCC, as the case may be,

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take possession or be in possession of the business and property of the Issuer at a time when proceedings with respect to the insolvency or liquidation of UBS AG have occurred and are continuing, then the Commissioner or the OCC, as the case may be, will apply any amounts that would be due to the holders of Notes in the absence of this waiver and the subordination provisions of the Notes:

- first, to the payment in full of all deposit liabilities and all other liabilities of UBS AG, acting through its Stamford branch, and, if the OCC has taken possession, of all the other branches and agencies of UBS AG in the United States (other than the Notes and other obligations of UBS AG, acting through its Stamford branch (or of UBS AG, acting through any of its other U.S. branches or agencies) that have also waived the benefit of the separate proceedings under Connecticut state law or Section 4(j) of the International Banking Act of 1978) and to any other claim accorded priority under any U.S. federal or Connecticut state law that is then due and payable, the priorities to be ascribed among those claims to be determined in accordance with those laws, and
- thereafter, to pay any amount remaining to any receiver or similar official in insolvency of UBS AG with similar powers appointed with respect to UBS AG or its assets for application, (A) first, to payment in full of all claims of depositors and other obligations of UBS AG ranking senior in right of payment to the Notes and (B) thereafter, to the payment, equally and ratably, of amounts due and owing on the Notes (whether pursuant to the Terms and Conditions or otherwise) and all obligations of UBS AG ranking *pari passu* in right of payment with the Notes.

Each holder and beneficial owner of a Note, by accepting a direct or beneficial interest in such Note, will be deemed to have also agreed that should the Commissioner or the OCC, as the case may be, take possession or be in possession of the business and property of the Issuer at any time when no proceedings with respect to the insolvency or liquidation with respect to UBS AG have occurred and are continuing, the Commissioner or the OCC, as the case may be, will apply the assets of the Issuer (or the U.S. branches and agencies of UBS AG) in the following order:

- first, to the payment in full of all deposit liabilities and all other liabilities of UBS AG, acting through its Stamford branch, and, if the OCC has taken possession, of all the other branches and agencies of UBS AG in the United States (other than the Notes and other obligations of UBS AG, acting through its Stamford branch (or UBS AG, acting through any of its other U.S. branches or agencies) that rank *pari passu* with or that are subordinated to the Notes) and to any other claim accorded priority under any U.S. federal or Connecticut state law which is then due and payable, the priorities to be ascribed among those claims to be determined in accordance with those laws,
- second, to the payment, equally and ratably, of amounts then due and owing on the Notes and all obligations ranking *pari passu* in right of payment with the Notes, and
- thereafter, to pay any amount remaining to UBS AG.

As a consequence of these subordination provisions, if proceedings with respect to the insolvency or liquidation with respect to UBS AG should occur, and/or if the Commissioner or the OCC, as the case may be, should take possession of the business or property of the Stamford branch, the holders of Notes may recover less ratably than the holders of deposit liabilities or the holders of unsubordinated liabilities of UBS AG (whether acting through its head offices, its Stamford branch or any of its other branches or agencies), even before any Contingent Write-Down is given effect. Moreover, holders of Notes would likely be required to pursue their claims on the Notes in proceedings with respect to UBS AG in Switzerland. To the extent that holders of Notes are entitled to any recovery with respect to Notes in any Swiss proceedings, the holders might not be entitled in such proceedings to a recovery in U.S. dollars and might be entitled only to a recovery in Swiss francs.

#### **Claims subject to a Contingent Write-Down**

Any claim of any holder in respect of or arising under the Notes (including, without any limitation, any claim in relation to any unsatisfied payment obligation of the Issuer subject to enforcement by any holder pursuant to an Event of Default) will be subject to, and superseded by, any 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.



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## Interest

### Interest

Subject to a Contingent Write-Down, as described under “–Contingent Write-Down” below, interest on the Notes will be payable semi-annually in arrears on February 17 and August 17 of each year (each, an “**Interest Payment Date**”), commencing on February 17, 2013.

Subject to a Contingent Write-Down, the Notes will bear interest on their principal amount at a rate of 7.625 percent per annum (“**Interest Rate**”) from and including the Issue Date (i) if the Notes are early redeemed as described under “–Redemption and Purchase–Early Redemption due to a Tax Event,” “–Redemption and Purchase–Early Redemption due to a Regulatory Event” or “–Redemption and Purchase–Early Redemption upon a Change in Progressive Capital Component Requirement or an Alignment Event” below, to and excluding the applicable Early Redemption Date, or (ii) otherwise, to and excluding the Maturity Date. However, if (upon due presentation thereof where presentation is required) 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 will continue to accrue on the principal amount of such Note (both before and after judgment) at the Interest Rate to (but excluding) the Relevant Date.

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

All U.S. dollar amounts resulting from any calculation required to be made will be rounded to the nearest cent (with one-half cent being rounded upwards).

### Publication of Interest Amounts

The Calculation Agent will cause each interest amount payable on the Early Redemption Date (if the Notes are to be early redeemed as described under “–Redemption and Purchase” below), and such other information as may be determined by it to be notified to the holders in accordance with proper notice (as described under “–Notices” below).

All determinations made by the Calculation Agent as described in this section “–Interest” will, in the absence of manifest error, be final and binding on the Issuer and the holders.

### Calculation Agent

So long as any Note is outstanding, the Issuer will at all times maintain an agent to serve as calculation agent under the Notes (the “**Calculation Agent**”). If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails to (i) duly calculate the interest amount payable on the Early Redemption Date (if the Notes are to be early redeemed as described under “–Redemption and Purchase” below), or (ii) comply with any other requirement in relation to the Notes, the Issuer will appoint a leading bank or financial institution that is experienced in the calculations or determinations to be made by the Calculation Agent to act as such in the Calculation Agent’s place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Any termination or appointment of the Calculation Agent pursuant to the provisions described in this section will take effect not more than 45 and not less than 30 days after the Issuer has notified the holders of such termination or appointment in the manner described under “–Notices” below, except that, in the case of insolvency, such termination or appointment will take immediate effect.

## Redemption and Purchase

### Final Redemption

Unless previously redeemed or purchased and cancelled and subject to a Contingent Write-Down, the Notes will 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.

### Early Redemption due to a Tax Event

Upon the occurrence of a Tax Event at any time after the Issue Date and subject to the conditions described under “–Early Redemption Notice” and “–Conditions for Early Redemption,” 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.

A “**Tax Event**” will be deemed to have occurred if the Issuer in making any payments on the Notes has paid, or will or would on the next payment date be required to pay, Additional Amounts, or has paid, or will or would be required to pay any additional Tax, in each case, under the laws or regulations of a Tax Jurisdiction (as defined below under “–Taxation and Additional Amounts”) or any political subdivision thereof or any authority of or in a Tax

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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.

#### **Early Redemption due to a Regulatory Event**

Upon the occurrence of a Regulatory Event at any time after the Issue Date and subject to the condition described under “Early Redemption Notice” below, 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.

A “**Regulatory Event**” will 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 as described under “–Early Redemption due to a Tax Event” or “–Early Redemption upon a Change in Progressive Capital Component Requirement or an Alignment Event,” a Regulatory Event will not have occurred for reasons of partial non-recognition of the Notes as Tier 2 Capital in the five-year period ending on the date immediately preceding the Maturity Date.

For this purpose:

“**National Regulations**” means, at any time, (i) the Swiss national banking and capital adequacy laws, and (ii) the capital adequacy regulations promulgated by the 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.

“**Progressive Capital Component**” means, at any time, any item that, pursuant to National Regulations at such time, qualifies as progressive capital component (*progressive Komponente*) within the meaning of the TBTF Dispatch.

“**TBTF Dispatch**” means the dispatch on the legislative proposals adopted by the Federal Council on April 20, 2011, in relation to a proposed amendment to the Swiss Banking Act concerning “too big to fail” (“*Botschaft zur Änderung des Bankengesetzes (Stärkung der Stabilität im Finanzsektor; too big to fail, TBTF)*”).

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

#### **Early Redemption upon a Change in Progressive Capital Component Requirement or an Alignment Event**

Upon the occurrence of a Change in Progressive Capital Component Requirement or an Alignment Event and subject to the conditions described under “–Early Redemption Notice” and “–Conditions for Early Redemption,” 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 percent of their aggregate principal amount, together with accrued and unpaid interest thereon to (but excluding) such Early Redemption Date, if any. However, the Issuer may not exercise its early redemption right arising from an Alignment Event if it has given the holders an Amendment Notice as described under “–Amendments–Amendments Following an Alignment Event” below.

An “**Alignment Event**” will 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:

- (i) qualifies as Tier 2 Capital and Progressive Capital Component, and
- (ii) 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 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

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Capital and Progressive Capital Component immediately prior to such change in the National Regulations.

A “**Change in Progressive Capital Component Requirement**” will be deemed to have occurred if (i) 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**”), (ii) 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 (iii) 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.

For this purpose:

“**Auditor**” means the accounting firm (i) appointed by the BoD 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 June 22, 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 Relevant Capital 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.

“**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.

“**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

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Reviewed Interim Measurement published upon the instruction of the FINMA on the relevant Extraordinary Publication Date, as applicable.

**“Core Tier 1 Capital”** means, as of any Balance Sheet Date, the BIS Tier 1 Capital as of such Balance Sheet Date, less the Hybrid Tier 1 Capital as of such Balance Sheet Date, as determined by UBS AG, and as (i) disclosed as “BIS core tier 1 capital” 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.

**“Core Tier 1 Ratio”** means, as of any Balance Sheet Date, the Core Tier 1 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.

**“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 as described under “–Contingent Write-Down–Trigger Event” below have been met.

**“Hybrid Tier 1 Capital”** means, as of any Balance Sheet Date, the aggregate amount, in Swiss francs, of items that constitute hybrid tier 1 capital of the Group as of such Balance Sheet Date, as determined by UBS AG pursuant to the National Regulations applicable to UBS AG as of such Balance Sheet Date, and as (i) disclosed as “hybrid tier 1 capital” 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.

**“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.

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

**“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.

**“Relevant Capital Ratio”** means (i) prior to January 1, 2013 (the “**Basel III Implementation Date**”), the Core Tier 1 Ratio, and (ii) on or after the Basel III Implementation Date, the CET1 Ratio.

**“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 Relevant Capital 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.

#### **Early Redemption Notice**

If the Issuer elects to redeem the Notes prior to the Maturity Date pursuant to the provisions described above, the Issuer will give the holders not less than 30 and not more than 60 days’ prior notice (an “**Early Redemption Notice**”) in the manner described under “–Notices” below. Any Early Redemption Notice will be irrevocable and specify the date on which the Issuer will so redeem the Notes (such specified date, the “**Early Redemption Date**”).

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### Conditions for Early Redemption

The Issuer may only redeem the Notes as a result of a Tax Event, a Change in Progressive Capital Component Requirement or an Alignment Event if (i) the FINMA has approved such redemption in writing on or prior to the relevant Early Redemption Date and (ii) no Viability Event (as defined below) has occurred prior to such Early Redemption Date.

### 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 stabilization 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 surrendered to the Fiscal Agent for cancellation.

### Cancellation

All Notes redeemed as described above will be cancelled and may not be reissued or resold. All Notes purchased and surrendered to the Fiscal Agent for cancellation as described under “–Purchases” above will be immediately cancelled upon surrender and may not be reissued or resold.

### 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 elects not to early redeem the Notes pursuant to this section, nothing in this section will prohibit the Issuer from redeeming any other instruments issued by any member of the Group pursuant to the terms thereof.

## Contingent Write-Down

### Trigger Event

Upon the occurrence of a Trigger Event, a Contingent Write-Down will occur on the Trigger Event Write-Down Date as described below.

A Trigger Event will be deemed to have occurred if the Issuer gives the holders a Trigger Event Write-Down Notice as described in this section. The Issuer will, subject to the limitations described below, give a Trigger Event Write-Down Notice to the holders of the Notes if, with respect to any Publication Date,

- the Relevant Trigger Capital Ratio as of such Publication Date is less than the Write-Down Threshold; and
- 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 clauses (x) and (y) of this paragraph 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.

If the Publication Date is an Ordinary Publication Date, then the Issuer will give the notice within five Business Days of the Publication Date (the fifth Business Day, the “**Trigger Breach Determination Date**,” and the date of such notice, an “**Ordinary Trigger Event Notice Date**”). If the Publication Date is an Extraordinary Publication Date, then the Issuer will give the proper notice on the Publication Date (an “**Extraordinary Trigger Event Notice Date**,” and together with an Ordinary Trigger Event Notice Date, a “**Trigger Event Notice Date**”) as described under “–Notices” below.

For purposes of these provisions:

“**Core Capital Instrument**” means, at any time, any security or other instrument issued by any member of the UBS Group that qualifies as Core Capital at such time. “**Core Capital**” means (i) at any time prior to the Basel III Implementation Date, any item that constitutes tier 1 capital of the UBS Group pursuant to the BIS Regulations applicable to UBS AG at such time, excluding any such item that constitutes hybrid tier 1

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capital of the UBS Group pursuant to the National Regulations at such time, and (ii) at any time on or after the Basel III Implementation Date, 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.

**“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 Relevant Capital 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*) within the meaning of the TBTF Dispatch.

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

**“Relevant Trigger Capital Ratio”** means (i) prior to the Basel III Implementation Date, the Trigger Core Tier 1 Ratio, and (ii) on or after the Basel III Implementation Date, the Trigger CET1 Ratio.

**“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 Core Tier 1 Ratio”** means, as of any Publication Date, (i) the sum of (x) the Core Tier 1 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.

**“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.

**“Trigger Event Write-Down Notice”** means, with respect to any Publication Date, a notice (i) stating that (x) the Relevant Trigger Capital 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. The date on which the Contingent Write-Down takes place will be no later than 10 Business Days after the date of such notice (the **“Trigger Event Write-Down Date”**), unless it is postponed as described in the next paragraph.

If the Issuer is required to give a Trigger Event Write-Down Notice, and on the relevant Publication Date any High-Trigger Contingent Capital is outstanding with respect to which either (x) no notice (a **“High-Trigger Write-Down/Conversion Notice”**) has been given prior to the Trigger Event Notice Date notifying the holders of such High-Trigger Contingent Capital that the Relevant Capital 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”**) or (y) such a 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,

- in the case of clause (x) above, the Issuer will 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 will be deemed to be the Trigger Event Notice Date, and
- 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 will be postponed to the High-Trigger Write-Down/Conversion Date (or the latest High-Trigger Write-Down/Conversion Date, as applicable) and such postponement will be specified in such Trigger Event Write-Down Notice.

If (A) the Issuer is required to give a Trigger Event Write-Down Notice 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 Relevant Capital 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) will not give such Trigger Event Write-Down Notice in relation to the relevant Ordinary Publication Date, and (y) will give proper notice to the holders (as described under “–Notices” below) on or prior to the Trigger Breach Determination Date, which notice will state that no Contingent Write-Down will occur in relation to the relevant Ordinary Publication Date.

“**Permitted Transactions**” means:

- 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 UBS Group;
- market-making in Core Capital Instruments as part of the securities business of any member of the UBS Group;
- 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;
- redemptions or repurchases of Core Capital Instruments pursuant to any shareholders’ rights plan; and
- 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.

“**Write-Down Threshold**” means five percent.

#### **Viability Event**

Upon the occurrence of a Viability Event, (i) the Issuer will give proper notice to the holders (as described under “–Notices” below) within three days of the date on which such Viability Event occurred, which notice will (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 will be no later than 10 Business Days after the date of such notice (such specified date, a “**Viability Event Write-Down Date**,” and together with a Trigger Event Write-Down Date, a “**Write-Down Date**,” and such notice, a “**Viability Event Write-Down Notice**,” and together with a

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Trigger Event Write-Down Notice, a **“Write-Down Notice”**), and (ii) a Contingent Write-Down will occur on the Viability Event Write-Down Date as described under **“–Contingent Write-Down”** below.

A Viability Event will be deemed to have occurred if:

- 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
- 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.

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

#### **Contingent Write-Down**

If the Issuer has given a Write-Down Notice in accordance with this section, then on the relevant Write-Down Date,

- (i) the full principal amount of each Note will automatically be written down to zero, the Notes will be cancelled and all references to the principal amount of the Notes in the Terms and Conditions will be construed accordingly;
- (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 pursuant to clause (i) above (*bedingter Forderungsverzicht*);
- (iii) the Issuer will pay (A) any accrued and unpaid interest on the Notes and (B) any Additional Amounts, 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) 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.

The events described in clauses (i) through (iv) above are referred to as a **“Contingent Write-Down.”**

**“Write-Down Notice Date”** means, with respect to any Contingent Write-Down, the date of the relevant Write-Down Notice.”

#### **Determination of Relevant Capital Ratio and Relevant Trigger Capital Ratio**

With respect to any Publication Date, (i) the Relevant Capital Ratio as of the relevant Balance Sheet Date, (ii) the Relevant Trigger Capital Ratio as of such Publication Date and (iii) the components of both of the foregoing, in each case, as published on such Publication Date, will be final for purposes of this section, and any subsequently published revisions, restatements or adjustments to any of those calculations will have no effect for purposes of this section **“–Contingent Write-Down”**.



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## Payments

All payments required to be made under the Notes will be made available in good time in freely disposable U.S. dollars, which will be placed at the free disposal of the Fiscal Agent on behalf of the holders. If the date on which the payment first becomes due under the Terms and Conditions (the “**Scheduled Due Date**”) for any payment under the Notes does not fall on a Business Day, the Issuer undertakes to effect payment for value on the Business Day immediately following the Scheduled Due Date, and the holders will not be entitled to any additional sum in relation to the payment. All payments required to be made under the Notes (including any Additional Amounts) will be made to the holders in U.S. dollars 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 fulfillment of any other formality save in respect of taxation. If Definitive Notes are issued, those Notes must be presented, and surrendered in the case of redemption, at the specified office of the relevant Paying Agent as a condition to receipt of any such payment.

Once the Fiscal Agent has received the due and punctual payment of funds in U.S. dollars, the Issuer will be released from its obligations under the Notes to the extent of such payment.

The Issuer reserves the right to terminate the appointment of the Fiscal Agent or any other Paying Agent and to appoint additional or other Paying Agents. However, so long as any Note is outstanding, the Issuer will at all times maintain (i) a Fiscal Agent that is a participant of DTC, and (ii) 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 August 24, 2011, a Paying Agent outside 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. The Issuer will give not more than 45 and not less than 30 days’ notice to the holders of any such termination or appointment in the manner described under “–Notices” below. However, in the case of insolvency of any Paying Agent, the termination of that Paying Agent or appointment of any other Paying Agent will take immediate effect.

For purposes of these provisions, “**Paying Agents**” means the Fiscal Agent and any other paying agent appointed in accordance with the terms of the Fiscal Agency Agreement.

## Taxation and Additional Amounts

All payments to be made by or on behalf of the Issuer pursuant to the Terms and Conditions (including for the avoidance of doubt, payments by a Paying Agent) must 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 the United States and/or Switzerland (each, 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, unless withholding, deduction or accounting for such Taxes is required by law.

In the event that any payment to be made by or on behalf of the Issuer pursuant to the 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 must pay such additional amounts as will result in the holders receiving the amounts that they would have received pursuant to the Terms and Conditions if no such withholding or deduction had been required (“**Additional Amounts**”).

The Issuer will not be required to pay any Additional Amounts in relation to any Note,

- 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
- if the relevant holder is liable for such Taxes on such Note as a result of such holder being or having been at any time, for United States federal income tax purposes, a “ten percent shareholder” of UBS AG; or
- 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

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- where such Tax is paid other than by deduction or withholding from a payment on the Notes; or
  - where such Tax is imposed solely because the relevant holder is a bank purchasing the Notes in the ordinary course of its lending business; or
  - if the relevant holder would have been able to avoid such withholding or deduction by presenting such Note (where presentment is required) to, or arranging to receive payment through, another Paying Agent (if any); or
  - more than 30 days after the Relevant Date, except to the extent that the relevant holder would have been entitled to receive the Additional Amounts if it had presented such Note (where presentment is required) for payment on the last day of such 30-day period; or
  - to the extent that such Tax is imposed or levied as a result of the holder, or the beneficial owner, of the Notes not complying with any certification or identification requirement that would have enabled it to avoid the imposition of the Tax; or
  - with respect to any Tax withheld or deducted as a result of the failure of any person to whom such payment is being made to perfect an exemption from any withholding imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as “FATCA”) and any regulations thereunder, agreements entered into pursuant thereto, or official interpretations thereof; or
  - 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 set forth in (A) the EU Savings Tax Directive or (B) the draft legislation proposed by the Swiss Federal Council on August 24, 2011, including, without limitation, the requirement that a person other than the Issuer (such as any paying agent) withhold or deduct tax; or
  - to the extent any combination of the above applies.

The term “**Relevant Date**” means, with respect to any payment, (i) 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 Fiscal Agent on or before the Scheduled Due Date, the date on which notice to the effect that the full amount of the money due on the Scheduled Due Date has been received by the Fiscal Agent is published in accordance with the Terms and Conditions.

Any reference in this offering circular, or the Terms and Conditions, to amounts payable by the Issuer pursuant to the Terms and Conditions includes any Additional Amount payable as described in this section, and any sum payable pursuant to an obligation taken in addition to or in substitution for the obligation described in this section.

### **Statute of Limitations**

In accordance with Swiss law, claims for interest payments under the Notes will become time-barred after a five-year period. Furthermore, claims for the repayment or redemption of Notes will become time-barred after a ten-year period. Both of these periods begin to run on the date on which such payments, repayment or redemption become due and payable.

### **Events of Default**

If any of the following events occurs, that occurrence will constitute an “**Event of Default**”:

- the Issuer fails to pay the principal amount of any Note when and as the same becomes due and payable under the Terms and Conditions, whether at the Maturity Date or at a date fixed for early redemption as described under “–Redemption and Purchase” above, and such failure continues unremedied for a period of 30 days; or
- the Issuer fails to pay any interest on the Notes when and as the same becomes due and payable, whether at the due date or at a date fixed for early redemption as described under “–Redemption and Purchase” above, and such failure continues unremedied for a period of 30 days; or
- the Issuer fails to observe or perform any other covenant, condition or agreement contained in the Terms and Conditions and such failure either (A) is incapable of remedy or (B) continues unremedied for a period of 60 days after written notice thereof from any holder to the Issuer; or

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- a Bankruptcy Event.

“**Bankruptcy Event**” means any of the following events with respect to UBS AG: (i) the adjudication of bankruptcy (*Konkurseröffnung*) pursuant to articles 171, 189 or 191 of the Swiss Federal Debt Enforcement and Bankruptcy Act of April 11, 1889, as amended from time to time (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 Swiss Federal Act on Banks and Savings Institutions of November 8, 1934, as amended from time to time (the “**FBA**”), (iv) the ordering of liquidation proceedings (*Liquidation*) pursuant to articles 33 to 37g of the FBA and/or (v) the appointment of a receiver in respect of the Stamford branch of UBS AG pursuant to Section 36a-428n of the Connecticut State Banking Law, or the appointment of a receiver with respect to the U.S. branches or agencies of UBS AG pursuant to Section 4(j) of the International Banking Act of 1978 (12 U.S.C. § 3102). However, none of the following will constitute a Bankruptcy Event: (x) mere debt collection proceedings (*Betreibungsverfahren*) 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 with such proceedings or measures.

Upon the occurrence of an Event of Default relating to any failure of the Issuer to meet any payment obligation and subject to a Contingent Write-Down,

- such payment obligation (and such payment obligation only) will be immediately deemed a due and payable (*fällige*) payment obligation of the Issuer, and
- if (A) the relevant holder has formally requested payment of such payment obligation from the Issuer, (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*) (*i.e.*, a written order to either pay the amount for which enforcement is sought or file an objection (*Rechtsvorschlag*)) has been issued by the relevant debt enforcement office (*Betreibungsamt*) (which issues such writ of payment upon the request of any person seeking such writ of payment without any formalities) 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.

If an insolvency proceeding with respect to the Issuer is instituted in Switzerland in accordance with the second preceding paragraph, the Issuer will 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.

In the case of any Event of Default arising as a result of any failure to observe or perform any covenant, condition, or agreement contained in the Terms and Conditions (other than a payment obligation) and subject to Contingent Write-Down, any holder may seek specific performance or damages with respect to such Event of Default pursuant to the Swiss Code of Obligations if so entitled thereunder. Under the Swiss Code of Obligations, the availability of specific performance depends on the nature of the claim:

- If one party (the “**Defaulting Party**”) fails to observe or perform a covenant, condition or obligation constituting an ancillary contractual obligation (*vertragliche Nebenpflicht*) (*i.e.*, any contractual obligation that is not characteristic for the relevant type of contract), the other party (the “**Non-defaulting Party**”) is entitled to claim damages for non-compliance from the Defaulting Party unless the Defaulting Party proves that no fault is attributable to it.
- Alternatively, the Non-defaulting Party may in certain cases be entitled to seek specific performance if the relevant ancillary contractual obligation is deemed a stand-alone ancillary obligation (*selbständige vertragliche Nebenpflicht*). Consequently, the question as to whether or not specific performance is available will be assessed by the courts on a case-by-case basis.

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In the case of any Event of Default arising as a result of a Bankruptcy Event and subject to a Contingent Write-Down, any holder may, by written notice to the Fiscal Agent at its specified office, 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.

No remedy against the Issuer other than those described in this section will be available to the holders in connection with the Issuer's obligations under the Terms and Conditions, whether for the recovery of amounts owing or in respect of any breach by the Issuer of any of its other obligations or otherwise. In particular, no holder may declare the principal amount of any Notes due and payable prior to the Maturity Date, or any interest on any Notes due and payable prior to the relevant Interest Payment Date, except after the occurrence of a Bankruptcy Event, as described in the preceding paragraph.

## **Amendments**

The Issuer will notify the holders of any amendments made pursuant to this section in the manner described under “–Notices” below. The notice must state the date on which the amendment will be effective.

Any amendment made as described in this section will be binding on the holders in accordance with its terms.

### **Amendments Following an Alignment Event**

If an Alignment Event has occurred and is continuing, the Issuer may, without the consent of the holders, amend the Terms and Conditions in order to align them (to the extent possible) with the terms of any outstanding capital instruments that

- have been issued by any member of the UBS Group,
- qualify as Tier 2 Capital and Progressive Capital Component, and
- have terms and conditions that:
  - include a write-down feature, and
  - 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, which provisions, if they had been included in the 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.

However, the Issuer may make such an amendment only if:

- the amendment, in the reasonable opinion of the Issuer, does not adversely affect the rights and claims of the holders under the Notes;
- the Issuer has given the holders not less than 30 days' notice of such amendment, which notice (the “**Amendment Notice**”) will (A) be irrevocable and (B) state the date on which such amendment will be effective (the “**Amendment Effective Date**”);
- the FINMA has approved such amendment in writing;
- no Viability Event has occurred prior to the applicable Amendment Effective Date; and
- 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 as the result of the occurrence of the Alignment Event, as described under “–Redemption and Purchase–Early Redemption upon a Change in Progressive Capital Component Requirement or an Alignment Event” above.

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## Amendments Generally

In addition to the amendment rights described under “–Amendments Following an Alignment Event” above, the Issuer may, without the consent of the holders, make any amendment to the Terms and Conditions that it considers to be

- necessary or desirable to give effect to the provisions described under “–Substitution” below including, without limitation, (x) if the Substitute Issuer is organized and/or resident for tax purposes in a jurisdiction other than Switzerland and/or the U.S. and Connecticut, any amendments to any references to the jurisdictions of “Switzerland,” on the one hand, or the “U.S.,” “Connecticut” or “Stamford,” on the other hand, contained in the Terms and Conditions, including, without limitation, amendments to the definition of the term “Bankruptcy Event,” the definition of the term “Business Day,” the governing law of the subordination provisions described under “–Status and Subordination” and the provisions described under “–Events of Default,” and (y) any amendments to reflect UBS AG’s guarantee described in clause (vi) under “–Substitution,” or
- formal, minor or technical in nature or
- necessary to correct a manifest error.

Under the Swiss Code of Obligations, the requirements regarding the approval of amendments to the Terms and Conditions depend on the type of amendment:

- Article 1170 of the Swiss Code of Obligations provides that the consent of holders representing two-thirds of the outstanding Notes is required for any resolution limiting the holders’ rights under the Terms and Conditions (such as a moratorium on interest or capital or certain amendments to the interest provisions). In addition, in order to become effective and binding on the non-consenting holders of the Notes, any such resolution must be approved by the competent superior cantonal composition court.
- Article 1181 of the Swiss Code of Obligations provides that for any resolutions that do not limit the holders’ rights under the Terms and Conditions, an absolute majority of the votes represented is sufficient to approve any such resolution, unless the law or the Terms and Conditions provide for more stringent requirements.

The parties to the Fiscal Agency Agreement may agree without the consent of the holders to any amendment to that agreement that is (i) in the reasonable opinion of such parties, not materially prejudicial to the interests of the holders, (ii) formal, minor or technical in nature, or (iii) necessary to correct a manifest error.

## Replacement

If Definitive Notes are printed, any definitive Note that is lost, stolen, mutilated, defaced or destroyed may be replaced, subject to applicable laws and regulations, at the specified office of the Fiscal Agent upon payment by the claimant of the fees, costs and expenses incurred by the Fiscal Agent and the Issuer in connection with the loss and replacement. The holder must agree to such terms as to evidence, security and indemnity as the Issuer may require, which may include, among other things, that if the Definitive Note allegedly or actually lost, stolen or destroyed is subsequently presented for payment, the holder must pay to the Issuer on demand the amount payable by the Issuer in respect of the Definitive Note that is subsequently presented. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

## Notices

So long as the Notes are represented by one or more Global Notes deposited with a custodian on behalf of DTC, notices to holders will be given by communication through the Fiscal Agent to DTC. Any notice given in this manner will be deemed to be validly given on the date of delivery to DTC.

If Definitive Notes are printed, as described under “–Amount, Denomination and Form” above, notices to holders will be valid if published in a leading English language daily newspaper published in New York (which is expected to be *The Wall Street Journal*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in the United States. Any such notice will be deemed to have been given on the date of first publication.

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## Meetings of Holders

Meetings of the holders of the Notes will be governed by article 1157 *et seq.* of the Swiss Code of Obligations. This will be true whether or not any substitution of the Issuer or an Issuing Branch Substitution (as defined below) occurs, as described under “–Substitution” below.

So long as the Notes are represented by one or more Global Notes deposited with a custodian on behalf of DTC, the holder of each Global Note (*i.e.*, the person to whom the Global Note is made out or to whom such Global Note has been duly endorsed) will (i) obtain instructions from the relevant beneficial owners in respect of any noteholder meeting, (ii) vote at such noteholders meeting in respect of each Note represented by such Global Note in accordance with the instructions received from the relevant beneficial owners and (iii) abstain from representing any Note at a noteholders meeting for which it has not received an instruction from the relevant beneficial owner. Only the Notes for which the holder received an instruction by the relevant beneficial owner to take part at a noteholders meeting shall be deemed to be present or represented at such a noteholders meeting.

## Substitution

The Issuer may, without the consent of the holders of the Notes, substitute any entity (a “**Substitute Issuer**”), whether or not the substitute entity is organized under the laws of Switzerland, for itself as principal debtor under the Notes upon giving no more than 30 and no less than 10 days’ notice to the holders of the Notes in the manner described under “–Notices” above, so long as the following conditions are met:

- (i) At least 95 percent of the Substitute Issuer’s capital and voting rights must be held, directly or indirectly, by UBS AG.
- (ii) The Issuer must not be in default in respect of any amount payable under the Notes at the time of the substitution.
- (iii) The Issuer and the Substitute Issuer must have entered into the documents (the “**Substitution Documents**”) necessary to give effect to the substitution. Pursuant to those agreements, the Substitute Issuer must have undertaken in favor of each holder to be bound by the 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 must 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 described under “–Taxation and Additional Amounts,” with the substitution of references to the Former Residence with references to the New Residence.
- (v) The Issuer and the Substitute Issuer must have obtained all necessary governmental approvals and consents for the 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 of Obligations and, if UBS AG issues that guarantee through any office other than one of its U.S. branches or agencies, it has also obtained an irrevocable and unconditional guarantee of, or a letter of credit that irrevocably and unconditionally guarantees, all amounts due and payable by the Substitute Issuer under, or in respect of, the Notes pursuant to such article 111, which has been issued by either a bank that is a corporation organized and doing business under the laws of the United States or of any state or territory or the District of Columbia or a U.S. branch or agency of a non-U.S. bank.
- (vii) If the Substitute Issuer is not organized 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.
- (viii) If the Substitute Issuer is not organized under the laws of England, the Substitute Issuer has appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal proceedings arising out of or in connection with the Fiscal Agency Agreement.

Upon any substitution of the Issuer as described above, the Substitute Issuer will succeed to, and be substituted for, the Issuer under the Notes as if the Substitute Issuer had been named as the Issuer in the Terms and Conditions, and the Issuer will be released from its obligations under the Notes.

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*A substitution of the Issuer as described above may be considered for U.S. federal income tax purposes to be an exchange of Notes for new Notes by the beneficial owners of Notes, resulting in recognition of taxable gain or loss for U.S. federal income tax purposes and other possible adverse tax consequences. U.S. beneficial owners should consult their own tax advisers regarding the U.S. federal, state and local income tax consequences of any substitution.*

Prior to any substitution described above, UBS AG may, without the consent of the holders, upon giving no more than 30 and no less than 10 days' notice to the holders, at any time after September 17, 2012, stop making payments under the Notes, and fulfill any of its other obligations and exercise any of its other rights and powers in respect of, or arising under, the Notes through its Stamford branch, and begin making those payments, fulfilling those obligations and exercising those powers and rights through its head offices in Basel and Zurich (an **"Issuing Branch Substitution"**). However, UBS AG may do so only if, when it gives the relevant notice:

- the Issuer is not in default in respect of any amount payable under the Notes,
- the Issuer would not be required to pay any Additional Amounts under the Notes after giving effect to the Issuing Branch Substitution that it would not have been required to pay if no Issuing Branch Substitution were to occur, and
- no registration under the Securities Act and no qualification under the Trust Indenture Act is required in connection with such Issuing Branch Substitution in order to permit the free transferability within the United States of the Notes or any beneficial interests therein, or, if any such registration or qualification is required, UBS AG has complied with such requirement.

Following an Issuing Branch Substitution, all references to the "Issuer" in the Terms and Conditions, each Global Note and the Fiscal Agency Agreement will be construed to refer to the head offices, and references to "Stamford," "Connecticut" or the "U.S." in the Terms and Conditions will, unless the context otherwise requires, be construed as references to "Switzerland."

### **Further Issuances of Notes**

The Issuer may issue additional notes from time to time without the consent of the holders of the existing Notes. If the new notes have the same terms and conditions as the Notes in all respects including being fungible for U.S. federal income tax purposes, other than the issue date and/or first date on which interest is paid, the new notes will be consolidated and form a single series with the Notes.

### **Currency Indemnity**

Any amount received or recovered by a holder in a currency other than U.S. dollars (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 will only constitute a discharge of the Issuer to the extent of the amount in U.S. dollars that the holder is able to purchase with the amount it receives or recovers in the other currency on the date of its receipt or recovery, or, if it is not practicable to purchase U.S. dollars with such amount on such date, on the first date on which it is practicable to do so. If the amount of U.S. dollars the holder is able to purchase is less than the amount owed by the Issuer to the holder under the Notes, the Issuer will be required to indemnify the holder against any loss sustained by it as a result. In addition, the Issuer will be required to indemnify the holder for the costs of making the purchase of U.S. dollars. The holder does not actually have to purchase the U.S. dollars; it is sufficient for the holder to demonstrate that it would have suffered a loss had an actual purchase been made.

These indemnities will constitute a separate and independent obligation from the Issuer's other obligations under the Notes, give rise to a separate and independent cause of action, apply irrespective of any indulgence granted by any holder and 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.

### **No Set-Off by Holders**

Subject to applicable law, each holder and beneficial owner of a Note, by accepting a direct or beneficial interest in such Note, will agree that it will not, and waives the 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

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with, the Notes. Accordingly, a holder will not be able to reduce any amount that it owes to UBS AG, whether acting through its Stamford branch or any other office, branch or agency, by virtue of any amounts that are payable by UBS AG to the holder or any amounts that would have been payable but for the occurrence of a Contingent Write-Down.

### **No Conversion**

Under Swiss law, the FINMA generally has the authority to force the conversion of debt instruments issued by a financial institution into equity under circumstances in which the financial institution otherwise could not avoid insolvency. However, under the Terms and Conditions, the Notes will under no circumstances be converted into equity of UBS AG, and will only absorb losses pursuant to the Terms and Conditions described above.

### **Governing Law and Jurisdiction**

The Notes will be governed by and construed in accordance with the laws of Switzerland. The courts of the city of Zurich will have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes. As a result, the holders of the Notes will be required to bring any such disputes that they may have in the Zurich courts, and not in the courts in the United States.

As noted under “Limitations on Enforcement of U.S. Laws Against UBS AG, Its Management and Others,” it may be difficult for you to serve legal process within the United States upon the directors and executive officers of UBS AG or to enforce, outside the United States, judgments obtained against UBS AG or its directors or executive officers in courts in jurisdictions inside the United States in any action, including actions predicated upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.



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## Book Entry, Delivery and Form of Securities

As described under “Description of Notes” above, the Notes will be issued in the form of one or more Global Notes, each of which will be negotiable by endorsement and deposited with a custodian on behalf of DTC. This section describes special considerations that will apply to the Notes while they are issued in global (*i.e.*, book-entry) form. If the Notes are issued in definitive form, as described under “Description of Notes” above, the considerations described in this section will no longer be applicable. References to DTC below include references to any successor depositary appointed by the Issuer in accordance with the Terms and Conditions.

### Book-Entry Owners

The Notes will be issued in the form of one or more Global Notes negotiable by endorsement. The Global Notes will be made out to Cede & Co. as nominee for DTC and deposited with a custodian on behalf of DTC. Pursuant to the terms of the Global Note, the Global Note may not be held by or transferred to any person other than DTC or its nominee or a successor to DTC or its nominee. DTC will hold the Global Note as depositary on behalf of other financial institutions that participate in DTC’s book-entry system. These participating institutions, in turn, hold book-entry beneficial interests in the Notes on behalf of themselves or their customers.

So long as the Notes are represented by one or more Global Notes, the Issuer and the Fiscal Agent will recognize only Cede & Co. as nominee for DTC as the holder of the Notes and the Fiscal Agent will instruct the Issuer to make all payments on the Notes in accordance with the instructions of DTC; such payments will be made by the Issuer to the Fiscal Agent and then to DTC in accordance with such instructions for so long as the Global Notes are held by DTC or its nominee. DTC will pass along the payments it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners. DTC and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the Terms and Conditions themselves.

As a result, investors will not own Notes directly. Instead, they will own beneficial interests in a Global Note, through a bank, broker or other financial institution that participates in DTC’s book-entry system or holds an interest through a participant. As long as the Notes are issued in global form, investors will be indirect owners, and not holders, of the Notes.

### Street Name Owners

If (i) printing of the Definitive Notes is required by Swiss or other applicable laws or regulations in connection with the enforcement of rights under the Notes, (ii) DTC notifies the Issuer that it is unwilling or unable to continue as a depositary or at any time ceases to be a “clearing agency” registered under the Exchange Act and a successor depositary so registered is not appointed by the Issuer within 90 days of that notice, or for any other reason the Notes cease to be held by a registered clearing agency in the form of one or more Global Notes, (iii) any Global Note is no longer deposited with a custodian on behalf of DTC or (iv) if the Notes are represented by more than one Global Note and (a) the holder of or depositary for each Global Note is no longer the same person or (b) each Global Note is no longer deposited with the same custodian on behalf of DTC, the Issuer (upon the request of the holder of any Global Note) will terminate all (but not only some of) the Global Notes and issue Notes in definitive, registered form. These Notes will be issued directly to, and registered in the name of, the persons designated by DTC, and will not be held by DTC. Please see “Description of Notes—Amount, Denomination and Form” for a discussion of considerations relating to holdings of definitive, registered Notes.

If the Notes are issued in definitive, registered form, an investor may choose to hold its Notes in its own name or in street name. Notes held by an investor in street name would be registered in the name of a bank, broker or other financial institution that the investor chooses, and the investor would hold only a beneficial interest in those Notes through an account it maintains at that institution.

For Notes held in street name, the Issuer will recognize only the intermediary banks, brokers and other financial institutions in whose names the Notes are registered as the holders of those Notes and will make all payments on those Notes to them. These institutions pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so; they are not obligated to do so under the Terms and Conditions themselves. Investors who hold Notes in street name will be indirect owners, not holders, of those Notes.

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## Legal Holders

The Issuer's obligations, as well as any obligations of the Fiscal Agent and any other third parties employed by the Issuer, run only to the holders of the Notes. The Issuer does not have obligations to investors who hold indirect interests in any Global Note or in Definitive Notes, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect owner of a Note or has no choice because the Issuer is issuing the Notes only in global form.

For example, once the Issuer makes a payment or gives a notice to the Fiscal Agent, which then makes a payment or gives a notice to DTC or a nominee thereof, for distribution to the holders, the Issuer has no further responsibility for that payment or notice even if the holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect owners but does not do so. Similarly, if the Issuer wants to obtain the approval of the holders for any purpose – for example, to amend the Fiscal Agency Agreement or to relieve the Issuer of the consequences of a default or of its obligation to comply with a particular provision of the Notes – the Issuer would seek approval only from the holders, and not the indirect owners, of the Notes. Only the Notes for which the holder received an instruction by the indirect owners to take part at a noteholders meeting will be deemed to be present or represented at such a noteholders meeting. Whether and how the holders contact the indirect owners is up to the holders.

When this offering circular refers to “you,” it means those who invest in the Notes being offered by this offering circular, whether they are the holders or only indirect owners of those Notes. When this offering circular refers to “your Notes,” it means the Notes in which you will hold a direct or indirect interest.

## Special Considerations for Indirect Owners

If you hold Notes through a bank, broker or other financial institution, either in book-entry form or in street name, you should check with your own institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- whether and how you can instruct it to exercise any rights to redeem or require repayment of any note or any other rights under any note;
- how it would handle a request for the holders' consent, if ever required;
- whether and how you can instruct it to send you notes registered in your own name so you can be a holder, if that is permitted with respect to any notes;
- how it would exercise rights under the notes if there were a default or other event triggering the need for holders to act to protect their interests; and
- if the securities are in book-entry form, how the depositary's rules and procedures will affect these matters.

## Legal Ownership and Book-Entry Issuance

An investor in the Notes should be aware of the following:

- An investor cannot require the Notes to be registered in its own name, and cannot obtain Notes in definitive or uncertificated form, except in the special situations described below.
- An investor will be an indirect holder and must look to its own bank or broker for payments on the Notes and protection of its legal rights relating to the Notes, as described under “–Legal Holders” above.
- An investor may not be able to sell interests in the Notes to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form.

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- An investor may not be able to pledge its interest in a Global Note in circumstances where certificates representing the Notes must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective.
  - DTC's policies will govern payments, deliveries, transfers, exchanges, notices and other matters relating to an investor's interest in a Global Note, and those policies may change from time to time. The Issuer, the Fiscal Agent and any other Paying Agents will have no responsibility for any aspect of DTC's policies, actions or records of ownership interests in the Global Notes. The Issuer, the Fiscal Agent and any other Paying Agents also do not supervise DTC in any way.
  - DTC will require that those who purchase and sell interests in a Global Note within its book-entry system use immediately available funds and your broker or bank may require you to do so as well.
  - Financial institutions that participate in DTC's book-entry system and through which an investor holds its interest in a Global Note, directly or indirectly, may also have their own policies affecting payments, deliveries, transfers, exchanges, notices and other matters relating to the Notes, and those policies may change from time to time. There may be more than one financial intermediary in the chain of ownership for an investor. The Issuer does not monitor and is not responsible for the policies or actions or records of ownership interests of any of those intermediaries.

### **Issue of Definitive Notes**

As noted above, if (i) printing of the Definitive Notes is required by Swiss or other applicable laws or regulations in connection with the enforcement of rights under the Notes, (ii) DTC notifies the Issuer that it is unwilling or unable to continue as a depositary or at any time ceases to be a "clearing agency" registered under the Exchange Act and a successor depositary so registered is not appointed by the Issuer within 90 days of that notice, or for any other reason the Notes cease to be held by a registered clearing agency in the form of one or more Global Notes, (iii) any Global Note is no longer deposited with a custodian on behalf of DTC or (iv) if the Notes are represented by more than one Global Note and (a) the holder of or depositary for each Global Note is no longer the same person or (b) each Global Note is no longer deposited with the same custodian on behalf of DTC, the Issuer will (upon request of the holder of any Global Note) terminate all (but not only some of) the Global Notes and exchange the Global Notes for definitive, registered notes representing the Notes that were represented by the Global Notes. After that exchange, the choice of whether to hold the Notes directly or in street name will be up to the individual investor. Investors must consult their own banks or brokers to find out how to have their interests in a Global Note transferred on termination to their own names, so that they will be holders. The rights of holders and street name investors are described above under "–Street Name Owners."

If the Global Notes are terminated, then the definitive registered notes issued in exchange will be delivered to, and registered in the name of, the persons designated by DTC, without coupons and in authorized denominations. In these circumstances, the Issuer will cause sufficient definitive registered notes to be executed and delivered to the Fiscal Agent for completion, authentication and dispatch to the relevant holders. A person having an interest in a Global Note will be required to provide the Fiscal Agent with a written order containing instructions and such other information as the Issuer and the Fiscal Agent may require to complete, execute and deliver the definitive registered notes.

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# Taxation

The following is a general description of certain tax considerations relating to the Notes under Swiss and U.S. federal law. 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 and the United States of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and of a Contingent Write-Down. This summary is based upon the law as in effect on the date of this offering circular 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.

**If you are in any doubt as to your tax position you should consult your professional tax adviser.**

## Switzerland

The following discussion is a summary of certain material Swiss tax considerations based on the legislation as of the date of this offering circular. 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 advisers 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 of interest on, and repayment of principal of, the Notes, will not be subject to Swiss federal withholding tax, provided that the proceeds from the offering and sale of the Notes are used outside of Switzerland unless use in Switzerland is permitted under the Swiss taxation laws in force from time to time without payments in respect of the Notes becoming subject to withholding for Swiss withholding tax as a consequence of such use of proceeds in Switzerland.

On August 24, 2011, the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent in Switzerland (which may be interpreted to include UBS AG) to deduct Swiss withholding tax at a rate of 35 percent 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 with respect to debt securities in global form, such as the Notes, 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 (the “**Treaty**”) 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. See “Description of Notes—Taxation and Additional Amounts.”

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

### Stamp Taxes

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

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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 0.3 percent 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**

*Notes Held by Non-Swiss Holders.* Payments by the Issuer of interest and repayment of principal to, and gain realized 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.

*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 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 realized on the sale or other disposition of such Notes or any loss realized following a Contingent Write-Down will be considered a tax-free capital gain or respectively a non-tax-deductible loss.

*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 recognize the payments of interest and any capital gain or loss realized 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.

#### **European Directive on the Taxation of Savings Income**

On October 26, 2004, the European Community and Switzerland entered into an agreement on the taxation of savings income pursuant to which Switzerland agreed to adopt measures equivalent to those of the EU Savings Tax Directive on the taxation of savings income in the form of interest payments. The agreement came into force as of July 1, 2005.

In accordance with this agreement and the Swiss law implementing this agreement, Swiss paying agents are required to withhold tax at a rate of 35 percent on interest payments made under the Notes to a beneficial owner who is an individual and resident of a Member State, with the option of the individual to have the paying agent and Switzerland provide to the tax authorities of the Member State the details of the interest payments in lieu of the withholding.

#### **United States**

**United States Internal Revenue Service Circular 230 Notice:** To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that: (a) any discussion of U.S. federal tax issues contained or referred to in this offering circular or any document referred to herein is not intended or written to be used, and cannot be used by prospective investors for the purpose of avoiding penalties that may be imposed on them under the U.S. Internal Revenue Code; (b) such discussion is written for use in connection with the promotion or marketing of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax adviser.

#### **Material U.S. Federal Income Tax Consequences**

*The following is a general description of the material United States federal income tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their 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 the United States of acquiring, holding and disposing of the Notes and receiving payments under the Notes.*

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The discussion below constitutes the opinion of Sullivan & Cromwell LLP, counsel to UBS AG.

This discussion applies to you only if you hold your Notes as capital assets for tax purposes. This section does not describe all of the tax consequences that may apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities,
- a trader in securities that elects to use a mark-to-market method of tax accounting for your securities holdings,
- a bank,
- a life insurance company,
- a tax-exempt organization,
- a person subject to alternative minimum tax,
- a person that purchases or sells the Notes as part of a wash sale for tax purposes,
- a person that owns Notes as part of a straddle or a hedging or conversion transaction for tax purposes, or
- a United States holder (as defined below) whose functional currency for tax purposes is not the U.S. dollar.

This discussion is based on the Internal Revenue Code of 1986, as amended (the “**Code**”), its legislative history, existing and proposed regulations under the Code, published rulings and court decisions, all as of the date hereof. These laws are subject to change, possibly on a retroactive basis.

If a partnership holds Notes, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partnership and a partner in a partnership holding Notes should consult its tax adviser with regard to the United States federal income tax treatment of an investment in the Notes.

Except as otherwise noted under “*Non-United States Holders*” below, this discussion is only applicable to you if you are a United States holder. You are a United States holder if you are a beneficial owner of a Note and you are for U.S. federal income tax purposes: (i) a citizen or resident of the United States; (ii) a domestic corporation or other entity taxable as a domestic corporation; (iii) an estate whose income is subject to United States federal income tax regardless of its source; or (iv) a trust if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

**NO STATUTORY, REGULATORY, JUDICIAL OR ADMINISTRATIVE AUTHORITY DIRECTLY DISCUSSES HOW THE NOTES SHOULD BE TREATED FOR UNITED STATES FEDERAL INCOME TAX PURPOSES. AS A RESULT, THE UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF YOUR INVESTMENT IN THE NOTES ARE UNCERTAIN. ACCORDINGLY, WE URGE YOU TO CONSULT YOUR TAX ADVISER AS TO THE TAX CONSEQUENCES OF OWNERSHIP OF NOTES DESCRIBED BELOW AND AS TO THE APPLICATION OF STATE, LOCAL, OR OTHER TAX LAWS TO YOUR INVESTMENT IN YOUR NOTES.**

*Characterization of the Notes.* There is no authority that addresses the tax treatment of an instrument such as the Notes that is denominated as a subordinated debt instrument but that provides for a Contingent Write-Down under which a holder of the Notes could lose its entire investment in the Notes. It is therefore unclear whether the Notes should be treated as equity of UBS AG, or as debt of UBS AG’s Stamford branch, for U.S. federal income tax purposes. We believe, however, that it is more likely than not that the Notes will be treated as equity of UBS AG for U.S. federal income tax purposes, and the terms of the Notes require a United States holder and UBS AG (in the absence of a statutory, regulatory, administrative or judicial ruling to the contrary) to treat the Notes for U.S. federal income tax purposes in accordance with such characterization except to the extent relating to withholding and reporting obligations in respect of non-United States holders. Except as discussed under “*Alternative Treatments*” below, the discussion below assumes that the Notes will be treated as equity of UBS AG.

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*Interest Payments on the Notes.* In general, the interest payments with respect to the Notes will be treated as dividends to the extent of UBS AG's current or accumulated earnings and profits as determined for U.S. federal income tax purposes. Subject to the discussion under "*PFIC*" below, any portion of an interest payment in excess of UBS AG's current and accumulated earnings and profits would be treated first as a nontaxable return of capital that would reduce your tax basis in the Notes, and would thereafter be treated as capital gain, the tax treatment of which is discussed below under "*Sale, Redemption, Maturity or Contingent Write-Down of the Notes.*" Because UBS AG does not currently maintain calculations of its earnings and profits under U.S. federal income tax principles, it is expected that all interest payments on the Notes will generally be reported to United States holders as dividends.

Dividends we pay with respect to the notes will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations.

The amount of an interest payment on the Notes will include amounts, if any, withheld in respect of Swiss taxes. For more information on Swiss withholding taxes see "*–Switzerland–Withholding Tax.*" The amount of interest payments treated as dividends will be foreign-source dividend income to United States holders. Subject to applicable limitations, some of which vary depending upon your circumstances, Swiss income taxes withheld from interest payments on the Notes to a United States holder not eligible for the exemption from Swiss withholding tax under the Treaty will be creditable against the United States holder's United States federal income tax liability. The rules governing foreign tax credits are complex, and you are urged to consult your tax adviser regarding the creditability of foreign taxes in your particular circumstances.

*Sale, Redemption, Maturity or Contingent Write-Down of the Notes.* Subject to the discussion under "*PFIC*" below, you will generally recognize capital gain or loss upon the sale, redemption, maturity or Contingent Write-Down of your Notes in an amount equal to the difference between the amount you receive at such time (which in the case of a Contingent Write-Down would be zero) and your tax basis in the Notes. In general, your tax basis in your Notes will be equal to the price you paid for them. Such capital gain or loss will be long-term capital gain or loss if you held your Notes for more than one year. Capital gain of a non-corporate United States holder is generally taxed at preferential rates where the property is held for more than one year. The deductibility of capital losses is subject to limitations.

*PFIC.* UBS AG does not expect to be a passive foreign investment company ("**PFIC**") for U.S. federal income tax purposes, and therefore believes that the Notes should not be treated as stock of a PFIC, but this conclusion is a factual determination made annually and thus may be subject to change. In general, UBS AG will be a PFIC with respect to you if, for any taxable year in which you hold the Notes, either (i) at least 75% of the gross income of UBS AG for the taxable year is passive income or (ii) at least 50% of the value, determined on the basis of a quarterly average, of UBS AG's assets is attributable to assets that produce or are held for the production of passive income (including cash). If UBS AG were to be treated as a PFIC, gain realized on the sale or other disposition of Notes would in general not be treated as capital gain. Instead, you would be treated as if you had realized such gain ratably over your holding period for the Notes. Amounts allocated to the year of disposition and to years before UBS AG became a PFIC would be taxed as ordinary income and amounts allocated to each other taxable year would be taxed at the highest tax rate applicable to individuals or corporations, as appropriate, in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. Further, to the extent that any distribution received by a United States holder on its Notes exceeded 125% of the average of the annual distributions on the Notes received during the preceding three years or the holder's holding period, whichever is shorter, the distribution would be subject to taxation in the same manner as gain, described immediately above. With certain exceptions, your Notes will be treated as stock in a PFIC if UBS AG was a PFIC at any time during your holding period for the Notes.

*Alternative Treatments.* As discussed above, it is possible that Notes could be treated as debt of UBS AG's Stamford branch for U.S. federal income tax purposes. If the Notes were so treated, you would be required to include the interest payments on the Notes in ordinary income. Furthermore, in such case, the Notes may be treated as a contingent payment debt instrument, in which case (i) you would be required to accrue interest on the Notes even if you are otherwise subject to the cash basis method of accounting for tax purposes, (ii) you may be required to accrue an amount of interest on the Notes in certain periods that may exceed the interest that is paid on the Notes in such periods, and (iii) you would be required to treat any gain that you recognize upon the sale, exchange, redemption or maturity of your Notes as ordinary income. Holders should consult their tax advisers as to the tax consequences to them if the Notes are classified as debt for U.S. federal income tax purposes.

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**Medicare Tax.** For taxable years beginning after December 31, 2012, if you are an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, you will be subject to a 3.8% tax (the “**Medicare Tax**”) on the lesser of (1) your “net investment income” for the relevant taxable year and (2) the excess of your modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual’s circumstances). Your net investment income will generally include the interest payments on the Notes (even if they are treated as dividends for tax purposes as described above) and your net gains from the sale, exchange, redemption or maturity of your Notes, unless such net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a United States holder that is an individual, estate or trust, you are urged to consult your tax advisers regarding the applicability of the Medicare Tax to your net investment income in respect of your investment in the Notes.

**Information with Respect to Foreign Financial Assets.** Under legislation enacted in 2010, owners of “specified foreign financial assets” with an aggregate value in excess of \$50,000 (and in some circumstances, a higher threshold), may be required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” include any financial accounts maintained by foreign financial institutions, including financial accounts in which Notes are held, and among other things, securities issued by non-U.S. persons, such as the Notes, if they are not held in accounts maintained by financial institutions. Holders are urged to consult their tax advisers regarding the application of this legislation to their ownership of the Notes.

**Backup Withholding and Information Reporting.** If you are a noncorporate United States holder, information reporting requirements, on Internal Revenue Service Form 1099, generally will apply to:

- all payments on the Notes within the United States, including payments made by wire transfer from outside the United States to an account you maintain in the United States, and
- the payment of the proceeds from the sale of Notes effected at a United States office of a broker.

Additionally, backup withholding will apply to such payments if you are a noncorporate United States holder that:

- fails to provide an accurate taxpayer identification number,
- is notified by the Internal Revenue Service that you have failed to report all interest and dividends required to be shown on your federal income tax returns, or
- in certain circumstances, fails to comply with applicable certification requirements.

In general, payment of the proceeds from the sale of the Notes effected at a foreign office of a broker will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker will generally be subject to information reporting and backup withholding if:

- the proceeds are transferred to an account maintained by you in the United States,
- the payment of proceeds or the confirmation of the sale is mailed to you at a United States address, or
- the sale has some other specified connection with the United States as provided in U.S. Treasury regulations, unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption.

In addition, payment of the proceeds from the sale of the Notes effected at a foreign office of a broker will generally be subject to information reporting if the broker is:

- a United States person,
- a controlled foreign corporation for United States federal income tax purposes,



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- a foreign person 50% or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period, or
  - a foreign partnership, if at any time during its tax year:
    - one or more of its partners are “U.S. persons,” as defined in U.S. Treasury regulations, who in the aggregate hold more than 50% of the income or capital interest in the partnership, or
    - such foreign partnership is engaged in the conduct of a United States trade or business,

unless the broker does not have actual knowledge or reason to know that you are a United States person and the documentation requirements described above are met or you otherwise establish an exemption. Backup withholding will apply if the sale is subject to information reporting and the broker has actual knowledge that you are a United States person.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the Internal Revenue Service.

*Non-United States Holders.* This subsection describes the tax consequences to a non-United States holder. You are a non-United States holder if you are a beneficial owner of the Notes and are, for United States federal income tax purposes:

- a nonresident alien individual,
- a foreign corporation, or
- an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from a Note.

If you are a United States holder or if you hold Notes in connection with a U.S. trade or business, this subsection does not apply to you.

As discussed above, it is unclear whether the Notes should be treated as equity of UBS AG or as debt of UBS AG’s Stamford branch for U.S. federal income tax purposes. Although we believe that it is more likely than not that the Notes will be treated as equity of UBS AG for U.S. federal income tax purposes, because of the uncertainty regarding the proper tax treatment of the Notes, it is possible that a U.S. payor (which term includes a “qualified intermediary” for purposes of this discussion) of interest on the Notes will treat such payments as subject to a 30% withholding tax (unless reduced pursuant to an applicable treaty) unless:

- you do not actually or constructively own 10% or more of the total combined voting power of all classes of stock of UBS AG entitled to vote,
- you are not a controlled foreign corporation that is related to UBS AG through stock ownership,
- the U.S. payor does not have actual knowledge or reason to know that you are a United States person and:
  - you have furnished to the U.S. payor an Internal Revenue Service Form W-8BEN or an acceptable substitute form upon which you certify, under penalties of perjury, that you are not a United States person,
  - in the case of payments made outside the United States to you at an offshore account (generally, an account maintained by you at a bank or other financial institution at any location outside the United States), you have furnished to the U.S. payor documentation

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that establishes your identity and your status as the beneficial owner of the payment for United States federal income tax purposes and as a non-United States person,

- the U.S. payor has received a withholding certificate (furnished on an appropriate Internal Revenue Service Form W-8 or an acceptable substitute form) from a person claiming to be:
  - a withholding foreign partnership (generally a foreign partnership that has entered into an agreement with the Internal Revenue Service to assume primary withholding responsibility with respect to distributions and guaranteed payments it makes to its partners),
  - a qualified intermediary (generally a non-United States financial institution or clearing organization or a non-United States branch or office of a United States financial institution or clearing organization that is a party to a withholding agreement with the Internal Revenue Service), or
  - a U.S. branch of a non-United States bank or of a non-United States insurance company,

and the withholding foreign partnership, qualified intermediary or U.S. branch has received documentation upon which it may rely to treat the payment as made to a non-United States person that is, for United States federal income tax purposes, the beneficial owner of the payment on the Notes in accordance with U.S. Treasury regulations (or, in the case of a qualified intermediary, in accordance with its agreement with the Internal Revenue Service),

- the U.S. payor receives a statement from a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business,
  - certifying to the U.S. payor under penalties of perjury that an Internal Revenue Service Form W-8BEN or an acceptable substitute form has been received from you by it or by a similar financial institution between it and you, and
  - to which is attached a copy of the Internal Revenue Service Form W-8BEN or acceptable substitute form, or
- the U.S. payor otherwise possesses documentation upon which it may rely to treat the payment as made to a non-United States person that is, for United States federal income tax purposes, the beneficial owner of the payments on the Notes in accordance with U.S. Treasury regulations.

In addition, you may be subject to otherwise applicable information reporting and backup withholding requirements with respect to payments on your Notes unless you comply with the certification and identification requirements as to your foreign status outlined above. Furthermore, we and other payors may report payments of interest on your Notes on Internal Revenue Service Form 1042-S even if the payments are not otherwise subject to the information reporting requirements described above.

**Prospective non-United States holders are urged to consult their tax advisers with respect to the tax consequences to them of an investment in the Notes, including the possibility of obtaining a refund for any amount withheld, and with respect to any possible alternative characterizations and treatments.**

*FATCA Withholding after December 31, 2016.* A 30% withholding tax may be imposed on certain payments on the Notes after December 31, 2016 to certain non-U.S. financial institutions that fail to comply with information

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reporting requirements or certification requirements in respect of their direct and indirect United States accountholders under certain provisions of the Code commonly referred to as “FATCA” to the extent that the payments are considered to be “foreign passthru payments.” Under current guidance, the term “foreign passthru payment” is not defined and it is not yet clear whether or to what extent payments on the Notes will be treated as foreign passthru payments. United States accountholders subject to such information reporting or certification requirements may include holders of the Notes holding Notes through a non-U.S. financial institution. If FATCA withholding is required, UBS AG will not be required to pay any additional amounts with respect to any amounts withheld. A beneficial owner of Notes that is not a foreign financial institution generally will be entitled to a refund of any amounts withheld under FATCA by filing a U.S. federal income tax return, which may entail significant administrative burden. United States and non-United States holders are urged to consult their tax advisers regarding the application of FATCA to their ownership of the Notes.

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## ERISA Matters

A fiduciary of a pension, profit-sharing or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), should consider the fiduciary standards of ERISA in the context of the plan’s particular circumstances before authorizing an investment in the Notes. Among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code of 1976, as amended (the “**Internal Revenue Code**”) prohibit an employee benefit plan, as well as individual retirement accounts and Keogh plans subject to Section 4975 of the Internal Revenue Code (together, “**Plans**”), from engaging in certain transactions involving “plan assets” with persons who are “parties in interest” under ERISA or “disqualified persons” under the Internal Revenue Code with respect to the plan. A violation of these “prohibited transaction” rules may result in excise tax or other liabilities under ERISA and Section 4975 of the Internal Revenue Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption. Therefore, a fiduciary of an employee benefit plan should also consider whether an investment in Notes might constitute or give rise to a prohibited transaction under ERISA and the Internal Revenue Code. Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and non-U.S. plans (as described in Section 4(b)(4) of ERISA) generally are not subject to the requirements of ERISA or Section 4975 of the Internal Revenue Code, but may be subject to federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Internal Revenue Code (“**Similar Laws**”).

UBS AG, UBS Securities LLC and other affiliates of UBS AG may each be considered a party in interest or disqualified person with respect to many Plans. This could be the case, for example, if one of these companies is a service provider to a Plan. Special caution should be exercised, therefore, before Notes are purchased by a Plan. In particular, the fiduciary of the Plan should consider whether exemptive relief is available under an applicable administrative or statutory exemption. The Department of Labor has issued five prohibited transaction class exemptions that could apply to exempt the purchase, sale and holding of Notes from the prohibited transaction provisions of ERISA and the Internal Revenue Code. Those class exemptions are Prohibited Transaction Exemption 96-23 (for certain transactions determined by in-house asset managers), Prohibited Transaction Exemption 95-60 (for certain transactions involving insurance company general accounts), Prohibited Transaction Exemption 91-38 (for certain transactions involving bank collective investment funds), Prohibited Transaction Exemption 90-1 (for certain transactions involving insurance company separate accounts), and Prohibited Transaction Exemption 84-14 (for certain transactions determined by independent qualified professional asset managers). In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Internal Revenue Code provide a limited exemption for the purchase and sale of securities, provided that neither the issuer of the securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction and provided further that the Plan pays no more and receives no less than adequate consideration in connection with the transaction (the so-called “service provider exemption”).

Because UBS AG, UBS Securities LLC and other affiliates of UBS AG may be considered a party in interest with respect to many Plans, Notes may not be purchased, held or disposed of by any Plan, any entity whose underlying assets include “plan assets” by reason of any Plan’s investment in the entity (a “**Plan Asset Entity**”), any person investing “plan assets” of any Plan or any plan subject to any Similar Laws, unless such purchase, holding or disposition is eligible for exemptive relief, including relief available under Prohibited Transaction Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, or the service provider exemption or a similar exemption from Similar Laws. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of Notes will be deemed to have represented, in its corporate and fiduciary capacity, by its purchase and holding of Notes that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such securities on behalf of or with “plan assets” of any Plan or with any assets of a governmental, church or non-U.S. plan that is subject to Similar Laws or (b) its purchase, holding and disposition will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA, Section 4975 of the Code or any Similar Laws.

Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing Notes on behalf of or with “plan assets” of any employee benefit plan consult with their counsel regarding the consequences

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under ERISA and the Internal Revenue Code of the acquisition of Notes and the availability of exemptive relief under any available exemptions, such as Prohibited Transaction Exemption 96-23, 95-60, 91-38, 90-1 or 84-14, the service provider exemption or a similar exemption from Similar Laws. Purchasers of Notes have exclusive responsibility for ensuring that their purchase and holding of Notes do not violate the fiduciary or prohibited transaction rules of ERISA or the Internal Revenue Code or any Similar Laws. The sale of any Notes to a plan subject to ERISA or the Code or any Similar Laws is in no respect a representation by UBS AG or any of its affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by any such plan generally or any particular plan, or that such investment is appropriate for such plans generally or any particular plan.

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## Plan of Distribution (Conflicts of Interest)

Subject to the terms and conditions in the underwriting agreement among the Issuer and UBS Securities, LLC, Citigroup Global Markets Inc., Goldman, Sachs & Co., J.P. Morgan Securities LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. LLC, RBS Securities Inc. and Wells Fargo Securities, LLC, as representatives of the underwriters, the Issuer has agreed to sell to the underwriters, and the underwriters have agreed to purchase from the Issuer, the principal amount of the Notes set forth opposite the names of the underwriters below:

<u>Underwriter</u>	<u>Principal Amount of Notes</u>
UBS Securities LLC	\$ 1,020,000,000
Citigroup Global Markets Inc.	\$ 140,000,000
Goldman, Sachs & Co.	\$ 140,000,000
J.P. Morgan Securities LLC	\$ 140,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	\$ 140,000,000
Morgan Stanley & Co. LLC	\$ 140,000,000
RBS Securities Inc.	\$ 140,000,000
Wells Fargo Securities, LLC	\$ 140,000,000
Total	<u>\$ 2,000,000,000</u>

The obligations of the underwriters under the underwriting agreement, including their agreement to purchase Notes from Issuer, are several and not joint. The underwriting agreement provides that the underwriters will purchase all the Notes if any of them are purchased. The offering of the Notes by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part. After the initial offering, the underwriters may change the offering price and any other selling terms. The underwriters may offer and sell Notes through certain of their affiliates.

The Issuer has agreed to indemnify the several underwriters against liabilities or to contribute to payments that they may be required to make in that respect.

The Notes have not been registered under the Securities Act or the securities laws of any other jurisdiction and are offered pursuant to an exemption from registration under Section 3(a)(2) of the Securities Act. Accordingly, the fiscal agency agreement is not, and is not required to be, qualified under the Trust Indenture Act.

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the official list and trading on its regulated market. The Notes are a new issue of securities, and there is currently no established trading market for the Notes. The underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market making in the Notes at any time in their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the prices that you receive when you sell will be favorable.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of securities.

In connection with the offering of the Notes, the underwriters may engage in overallotment, stabilizing transactions and syndicate covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for the underwriters. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions and syndicate covering transactions may cause the price of the Notes to be higher than it would otherwise be in the absence of those transactions. If the underwriters engage in stabilizing or syndicate covering transactions, they may discontinue them at any time.

We expect that delivery of the Notes will be made against payment therefor on or about the closing date specified on the cover page of this offering circular, which will be T+5. Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade

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expressly agree otherwise. Accordingly, purchasers who wish to trade Notes on August 10, 2012 or the next succeeding two business days will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of Notes who wish to trade Notes on August 10, 2012 or the next succeeding two business days should consult their own adviser.

### **Conflicts of Interest**

UBS Securities LLC is an affiliate of the Issuer and, as such, has a “conflict of interest” in this offering within the meaning of FINRA Rule 5121. In addition, the Issuer will receive the net proceeds (excluding the underwriting discount) from the offering of the Notes, which creates an additional conflict of interest within the meaning of FINRA Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. UBS Securities LLC is not permitted to sell Notes in the offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing, cash management and brokerage activities. The underwriters and their affiliates have performed and will continue to perform investment banking, commercial banking, hedging, cash management and advisory services for UBS and its affiliates from time to time, including as acting as underwriters, book-runners or underwriters in our past offerings, for which they have received or may receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and their respective 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, and such investment and securities activities may involve securities and/or instruments of the Issuer or its affiliates. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

### **Selling Restrictions**

#### ***Hong Kong***

Each underwriter represents, warrants and undertakes that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) 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
- (b) 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 (Cap. 571) of Hong Kong and any rules made under that Ordinance.

#### ***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 “FIEA”) and, accordingly, each underwriter undertakes that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and other relevant laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

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### ***Singapore***

Each underwriter has acknowledged that this offering circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each underwriter has represented, warranted and agreed that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this offering circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such 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.

### ***Taiwan***

The Notes may not be offered, sold or distributed in Taiwan to Taiwanese residents or entities incorporated in Taiwan other than in accordance with the laws and regulations of Taiwan. Each underwriter confirms that it will not sell or distribute the Notes in Taiwan to Taiwanese residents or entities incorporated in Taiwan other than in accordance with laws and regulations of Taiwan.

### ***United Kingdom***

Each underwriter has represented and agreed that:

- (a) *General Compliance:* it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the “FSMA”) of Great Britain with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (b) *Financial Promotion:* it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 any Notes in circumstances in which Section 21(1) of the FSMA does not or would not, if the Issuer was not an authorized person, apply to the Issuer.



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## Auditors

The consolidated financial statements of UBS AG appearing in UBS AG's 2011 Form 20-F, and the effectiveness of UBS AG's internal control over financial reporting as of December 31, 2011, have been audited by Ernst & Young Ltd., an independent registered public accounting firm, as set forth in their reports thereon, included therein and incorporated herein by reference.

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## General Information

### Listing

Application has been made for the Notes to be admitted to the Official List and to trading on the regulated market of the Irish Stock Exchange. It is expected that admission of the Notes to the Official List and to trading on the regulated market of the Irish Stock Exchange will be granted on or around the Issue Date, subject only to the issue of the Global Note. If the Global Note is not issued as mentioned in this offering circular, the issue of the Notes may be cancelled.

### Authorizations

The creation and issue of the Notes has been authorized by the Group Chief Financial Officer of UBS AG on August 10, 2012.

### Significant/Material Change

Except as disclosed in this offering circular or in the documents incorporated into this offering circular, there has been no significant change in the financial or trading position of UBS since June 30, 2012. Except as disclosed in this offering circular, since December 31, 2011, there has been no material adverse change in the prospects of UBS.

### Legal and Arbitration Proceedings

Except as disclosed in this offering circular or in the documents incorporated into this offering circular, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this offering circular, a significant effect on the financial position or profitability of UBS.

### Clearing

The Notes have been accepted for clearance through DTC. The ISIN is US90261AAB89 and the CUSIP is 90261AAB8. The Swiss Security Code is 19.270.562.

### 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 December 31, 2010 and December 31, 2011 by Ernst & Young Ltd., Aeschengraben 9, CH-4002, Basel, Switzerland, who have given, and have not withdrawn, their consent to the inclusion of their report in this offering circular in the form and context in which it is included. Ernst & Young Ltd. are members of the Institute of Certified Accountants and Tax Consultants based in Zurich, Switzerland.

On May 3, 2012, the AGM of UBS AG re-elected Ernst & Young Ltd. as auditors for the financial statements of UBS AG and the consolidated financial statements of the UBS Group for a further one-year term.

### Documents on Display

Copies of the following documents (together with English translations thereof where relevant) may be inspected in physical and/or electronic form during normal business hours at the offices of the Fiscal Agent at 100 Wall Street, Suite 1600, New York, NY 10005, United States for the life of this offering circular:

- the Articles of Association of UBS AG;
- the Underwriting Agreement;
- the Fiscal Agency Agreement;
- the 2011 Form 20-F; and

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- UBS AG's quarterly reports for the quarters ended September 30, 2011, December 31, 2011, March 31, 2012 and June 30, 2012.

### **Listing Agent**

Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on its regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

### **Notices**

Notices to holders will be valid, for so long as the Notes are admitted to trading on the Irish Stock Exchange, when such notice is filed in the Companies Announcement Office of the Irish Stock Exchange.

### **Foreign Language**

The language of the offering circular 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.

### **Estimates of Total Expenses related to the Admission to Trading**

The total expenses related to the admission to trading is estimated to be EUR 5,000.

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### **Registered Offices of the Issuer**

Aeschenvorstadt 1  
4051 Basel  
Switzerland

Bahnhofstrasse 45  
8001 Zurich  
Switzerland

### **Fiscal Agent**

U.S. Bank, N.A.  
100 Wall Street, Suite 1600  
New York, NY 10005  
United States

### **Legal Advisers**

*To the Underwriters  
as to U.S. and English law*  
Davis Polk & Wardwell LLP  
450 Lexington Avenue  
New York, NY 10017  
United States

*To the Issuer  
as to Swiss law*  
Homburger AG  
Hardstrasse 201  
Prime Tower  
8005 Zurich  
Switzerland

*To the Issuer  
as to U.S. and English law*  
Sullivan & Cromwell LLP  
125 Broad Street  
New York, NY 10004  
United States

*To the Issuer  
as to Connecticut law*  
Cummings & Lockwood LLC  
Six Landmark Square  
Stamford, CT 06901  
United States

### **Auditors**

*To the Issuer*

Ernst & Young Ltd.  
Aeschengraben 9  
P.O. Box 2149  
CH-4002 Basel  
Switzerland

### **Irish Listing Agent**

Arthur Cox Listing Services Limited  
Earlsfort Centre  
Earlsfort Terrace  
Dublin 2  
Ireland

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## Annex A: Terms and Conditions of the Notes

## TERMS AND CONDITIONS OF THE TIER 2 SUBORDINATED NOTES DUE 2022

The terms and conditions of the Tier 2 Subordinated Notes due 2022 issued by UBS AG, acting through its Stamford branch, are as follows:

### 1 DEFINITIONS

**“Additional Amounts”** has the meaning assigned to such term in Condition 8.

**“Alignment Event”** has the meaning assigned to such term in Condition 5.

**“Amendment Effective Date”** has the meaning assigned to such term in Condition 11.

**“Amendment Notice”** has the meaning assigned to such term in Condition 11.

**“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 June 22, 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 Relevant Capital 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, (iv) the ordering of liquidation proceedings (*Liquidation*) pursuant to articles 33 to 37g of the FBA and/or (v) the appointment of a receiver in respect of the Stamford branch of UBS AG pursuant to Section 36a-428n of the Connecticut State Banking Law, or the appointment of a receiver with respect to the U.S. branches or agencies of UBS AG pursuant to Section 4(j) of the International Banking Act (12 U.S.C. § 3102); *provided, however*, that none of the following shall constitute a Bankruptcy Event: (x) mere debt collection proceedings (*Betreibungsverfahren*) 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.

**“Basel III Implementation Date”** means January 1, 2013.

**“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 Stamford, London, Zurich and New York.

**“Calculation Agent”** means U.S. Bank, N.A., in its capacity as calculation agent for the Notes, and includes any successor to U.S. Bank, N.A., in its capacity as Calculation Agent appointed in accordance with the terms of the Fiscal Agency Agreement.

**“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.

**“Commissioner”** means the Banking Commissioner of the State of Connecticut.

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

**“Core Capital”** means (i) at any time prior to the Basel III Implementation Date, any item that constitutes tier 1 capital of the Group pursuant to the BIS Regulations applicable to UBS AG at such time, excluding any such item that constitutes hybrid tier 1 capital of the Group pursuant to the National Regulations at such time, and (ii) at any time on or after the Basel III Implementation Date, 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.

**“Core Tier 1 Capital”** means, as of any Balance Sheet Date, the BIS Tier 1 Capital as of such Balance Sheet Date, less the Hybrid Tier 1 Capital as of such Balance Sheet Date, as determined by UBS AG, and as (i) disclosed as “BIS core tier 1 capital” 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.

**“Core Tier 1 Ratio”** means, as of any Balance Sheet Date, the Core Tier 1 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.

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

**“Definitive Notes”** has the meaning assigned to such term in Condition 2.

**“Depository”** means The Depository Trust Company or any successor Depository designated by the Issuer; *provided, however*, that, irrespective of the number of Global Notes outstanding, there shall be no more than one Depository at any time.

**“Early Redemption Date”** has the meaning assigned to such term in Condition 5.



**“Early Redemption Notice”** has the meaning assigned to such term in Condition 5.

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

**“Event of Default”** has the meaning assigned to such term in Condition 10.

**“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 have been met.

**“Extraordinary Trigger Event Notice Date”** has the meaning assigned to such term in Condition 6.

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

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

**“Fiscal Agency Agreement”** means the Fiscal Agency Agreement dated as of the Issue Date, among the Issuer, the Fiscal Agent and the other agents from time to time party thereto, as may be amended, supplemented or otherwise modified from time to time.

**“Fiscal Agent”** means U.S. Bank, N.A., in its capacity as fiscal agent for the Notes, and includes any successor to U.S. Bank, N.A., in its capacity as Fiscal Agent appointed in accordance with the terms of the Fiscal Agency Agreement.

**“Former Residence”** has the meaning assigned to such term in Condition 15.

**“Global Note”** has the meaning assigned to such term in Condition 2.

**“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 Relevant Capital 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*) within the meaning of the TBTF Dispatch.

**“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 Relevant Capital 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, (i) so long as such Note is represented by a Global Note, Cede & Co., as nominee for the Depositary, or the holder of such Global Note to whom such Global Note is made out or to whom such Global Note has been duly endorsed, and (ii) if Definitive Notes are printed, the registered holder of the relevant Definitive Note. No other person, including any Indirect Holder, shall be a Holder for the purpose of these Terms and Conditions or have any rights, or be owed any obligations by the Issuer, under the Notes.

**“Hybrid Tier 1 Capital”** means, as of any Balance Sheet Date, the aggregate amount, in Swiss francs, of items that constitute hybrid tier 1 capital of the Group as of such Balance Sheet Date, as determined by UBS AG pursuant to the National Regulations applicable to UBS AG as of such Balance Sheet Date, and as (i) disclosed as “hybrid tier 1 capital” 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.

**“Indirect Holder”** means, with respect to any Note represented by a Global Note, any person (other than the Holder) that owns a beneficial interest in such Note through a bank, broker or other

financial institution that (i) participates in the Depository's book-entry system or (ii) holds an interest in such Note through a participant in the Depository's book-entry system. No Indirect Holder shall have any rights, or be owed any obligations, under the Notes.

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

**"Interest Rate"** means 7.625 percent per annum.

**"Issue Date"** means August 17, 2012.

**"Issuer"** means UBS AG, acting through its Stamford branch.

**"Issuing Branch Substitution"** has the meaning assigned to such term in Condition 15.

**"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 August 17, 2022.

**"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 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 15.

**"Notes"** means the USD 2,000,000,000 Tier 2 Subordinated Notes due 2022 issued by the Issuer on the Issue Date.

**"OCC"** means the U.S. Office of the Comptroller of the Currency.

**"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.

**"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 Agents”** means the Fiscal Agent and any other paying agent appointed in accordance with the terms of the Fiscal Agency Agreement.

**“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*) within the meaning of the TBTF Dispatch.

**“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.

**“Reduction Confirmation”** has the meaning assigned to such term in Condition 5.

**“Register”** has the meaning assigned to such term in Condition 2.

**“Registrar”** has the meaning assigned to such term in Condition 2.

**“Regulatory Event”** has the meaning assigned to such term in Condition 5.

**“Relevant Capital Ratio”** means (i) prior to the Basel III Implementation Date, the Core Tier 1 Ratio, and (ii) on or after the Basel III Implementation Date, the CET1 Ratio.

**“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 moneys payable on the Scheduled Due Date has not been received by the Fiscal Agent on or before the Scheduled Due Date, the date on which notice to the effect that the full amount of the money due on the Scheduled Due Date has been received by the Fiscal Agent is published in accordance with these Terms and Conditions.

**“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.

**“Relevant Trigger Capital Ratio”** means (i) prior to the Basel III Implementation Date, the Trigger Core Tier 1 Ratio, and (ii) on or after the Basel III Implementation Date, the Trigger CET1 Ratio.

**“Reviewed Interim Measurement”** means an interim measurement of the Relevant Capital 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.

**“Specified Office”** has the meaning assigned to such term in the Fiscal Agency Agreement.

**“Substitute Issuer”** has the meaning assigned to such term in Condition 15.

**“Substitution Documents”** has the meaning assigned to such term in Condition 15.

**“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.

“**Tax Jurisdiction**” means the United States and/or Switzerland.

“**Taxes**” has the meaning assigned to such term in Condition 8.

“**TBTF Dispatch**” means the dispatch on the legislative proposals adopted by the Federal Council on April 20, 2011, in relation to a proposed amendment to the Swiss Banking Act concerning “too big to fail” (*“Botschaft zur Änderung des Bankengesetzes (Stärkung der Stabilität im Finanzsektor; too big to fail, TBTF)”*).

“**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.

“**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 Core Tier 1 Ratio**” means, as of any Publication Date, (i) the sum of (x) the Core Tier 1 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.

“**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 Relevant Trigger Capital 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, be no later than 10 Business Days after the date of such notice (the “**Trigger Event Write-down Date**”).

“**U.S.C.**” means the United States Code, as amended from time to time.

“**U.S.\$**”, “**USD**”, “**U.S. dollars**” or “**cents**” means the lawful currency of the United States of America.

“**Viability Event**” has the meaning assigned to such term in Condition 6.

“**Viability Event Write-down Date**” has the meaning assigned to such term in Condition 6.

“**Viability Event Write-down Notice**” has the meaning assigned to such term in Condition 6.

“**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 percent.

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

### (a) *Amount and Denomination*

The initial aggregate principal amount of the Notes will be USD 2,000,000,000. The Notes will be issued in minimum denominations of USD 250,000 each and integral multiples of USD 1,000 in excess thereof.

### (b) *Global Notes*

The Notes and all rights in connection therewith will be documented in the form of one or more global notes (each, a “**Global Note**”) negotiable by endorsement (*Ordrepapier*), all of which shall be made out to Cede & Co. as nominee for the Depositary and deposited on the Issue Date by the Fiscal Agent with a custodian on behalf of the Depositary until the earliest of (x) redemption of the Notes, (y) cancellation of the Global Notes following the issuance of a Write-down Notice, and (z) printing of Definitive Notes.

So long as the Notes are represented by more than one Global Note, all rights under the Global Notes shall be exercised concurrently and in a uniform manner in respect of all Notes outstanding (it being understood that any instructions received by the Holder of any Global Note from any Indirect Holder as described in the second paragraph of Condition 14 need not be the same as those instructions received from any other Indirect Holder).

A Global Note may be transferred without the prior written consent of the Fiscal Agent, but only as described in the Global Note.

Neither the Issuer nor any holder of Notes shall at any time have the right to effect or demand the conversion of any Global Note into, or the delivery of, uncertificated securities (*Wertrechte*) or definitive Notes (*Wertpapiere*) except as provided in clause (c) below.

(c) *Definitive Notes*

No physical delivery of the Notes shall be made unless and until definitive Notes (*Wertpapiere*) in registered form ("**Definitive Notes**") are printed. Definitive Notes may be printed, and all (but not only some of) the Global Notes may be exchanged, in whole, but not in part, for Definitive Notes, at the request of the Holder of any Global Note if

- (i) printing of the Definitive Notes is required by Swiss or other applicable laws or regulations in connection with the enforcement of rights under the Notes; or
- (ii) the Depositary notifies the Issuer that it is unwilling or unable to continue as a depositary or at any time ceases to be a "clearing agency" registered under the United States Securities Exchange Act of 1934, as amended, and a successor depositary so registered is not appointed by the Issuer within 90 days of that notice, or for any other reason the Notes cease to be held by a registered clearing agency in the form of one or more Global Notes; or
- (iii) any Global Note is no longer deposited with a custodian on behalf of the Depositary; or
- (iv) if the Notes are represented by more than one Global Note, (A) the Holder of or Depositary for each Global Note is no longer the same person, or (B) each Global Note is no longer deposited with the same custodian on behalf of the Depositary;

*provided, however*, that no Definitive Notes shall be printed if the Issuer has given a Write-down Notice in accordance with Condition 6.

If the Global Notes are to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge) of Definitive Notes, duly authenticated without coupons, to, and which Definitive Notes shall be registered in the name of, the person(s) designated by the Depositary on behalf of the Holder of each Global Note in an aggregate principal amount equal to the principal amount of such Global Note against the surrender of the such Global Note at the Specified Office of the Fiscal Agent within 30 days of the date on which the Holder of any Global Note requested that Definitive Notes be printed and the Global Notes exchanged pursuant to the immediately preceding paragraph. Definitive Notes shall be issued in denominations of USD 250,000 and integral multiples of USD 1,000 in excess thereof.

Should Definitive Notes be printed, such Definitive Notes shall not be issued in bearer form but exclusively in registered form for U.S. tax purposes, whereby, *inter alia*, title will pass exclusively by registration of the Holders in a noteholders' register (the "**Register**") to be established and maintained by a registrar (the "**Registrar**"), which is appointed by the Issuer



and acting on its behalf after consultation with the Fiscal Agent and shall be duly notified to the Holders in accordance with Condition 13. In case of printing of Definitive Notes, no individually certificated coupons shall be printed. The Holders must present the Definitive Notes in order to claim payments under the Notes. Only Holders duly registered in the Register shall be entitled to payments under the Definitive Notes. Definitive Notes may be transferred upon presentation of the Definitive Notes at the Specified Office of the Registrar or the Fiscal Agent. No transfer of a Definitive Note shall be valid unless and until entered in the Register.

### 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 reorganization, 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 reorganization, reconstruction, amalgamation or substitution (x) (except in the case of any such substitution pursuant to Condition 15) have previously been approved by a resolution of the Holders in accordance with Condition 14 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 or in relation to the occurrence of any other Event of Default) shall be subject to, and superseded by, any Contingent Write-down pursuant to Condition 6, 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.

(d) *Waiver of Certain Preference Rights*

- (i) Each Holder and Indirect Holder, by accepting a direct or beneficial interest in a Note, irrevocably waives its rights to any preference to which it may become entitled under Section 36a-428n(e) of the Connecticut General Statutes, under Section 4(j) of the International Bank Act of 1978, or under any other similar law to the extent necessary to give effect to the subordination provisions of clause (b) of this Condition 3.
- (ii) Each Holder and Indirect Holder, by accepting a direct or beneficial interest in a Note, agrees that, should the Commissioner or the OCC, as the case may be, take possession or be in possession of the business and property of the Issuer at a time when proceedings with respect to the insolvency or liquidation of UBS AG have occurred and are continuing, then the Commissioner or the OCC, as the case may be, will apply any amounts that would be due to the Holders in the absence of the waiver described in clause (i) above and the subordination provisions of the Notes:
  - (A) first, to the payment in full of all deposit liabilities and all other liabilities of UBS AG, acting through its Stamford branch, and, if the OCC has taken possession, of all the other branches and agencies of UBS AG in the United States (other than the Notes and other obligations of UBS AG, acting through its Stamford branch (or of UBS AG, acting through any of its other U.S. branches or agencies) that have also waived the benefit of the separate proceedings under the law of the State of Connecticut or Section 4(j) of the International Banking Act) and to any other claim accorded priority under any U.S. federal law or law of the State of Connecticut that is then due and payable, the priorities to be ascribed among those claims to be determined in accordance with those laws, and
  - (B) thereafter, to pay any amount remaining to any receiver or similar official in insolvency of UBS AG with similar powers appointed with respect to UBS AG or its assets for application, (1) first, to payment in full of all claims of depositors and other obligations of UBS AG ranking senior in right of payment to the Notes and (2) thereafter, to the payment, equally and ratably, of amounts due and owing on the Notes (whether pursuant to the terms of the Notes or otherwise) and all obligations of UBS AG ranking *pari passu* in right of payment with the Notes.
- (iii) Each Holder and each Indirect Holder, by accepting a direct or beneficial interest in a Note, agrees that should the Commissioner or the OCC, as the case may be, take possession or be in possession of the business and property of the Issuer at any time when no proceedings with respect to the insolvency or liquidation with respect to UBS AG have occurred and are continuing, the Commissioner or the OCC, as the case may be, will apply the assets of the Issuer (or the U.S. branches and agencies of UBS AG) in the following order:

- (A) first, to the payment in full of all deposit liabilities and all other liabilities of UBS AG, acting through its Stamford branch and, if the OCC has taken possession, of all the other branches and agencies of UBS AG in the United States (other than the Notes and other obligations of UBS AG, acting through its Stamford branch (or of UBS AG, acting through any of its other U.S. branches or agencies) that rank *pari passu* with or that are subordinated to the Notes) and to any other claim accorded priority under any U.S. federal law or law of the State of Connecticut that is then due and payable, the priorities to be ascribed among those claims to be determined in accordance with those laws,
- (B) second, to the payment, equally and ratably, of amounts then due and owing on the Notes and all obligations ranking *pari passu* in right of payment with the Notes, and
- (C) thereafter, to pay any amount remaining to UBS AG.

#### 4 INTEREST

##### (a) *Interest*

Subject to Condition 6,

- (i) the Notes shall bear interest on their principal amount at the Interest Rate from and including the Issue Date (A) if the Notes are early redeemed pursuant to clause (b), (c) or (d) of Condition 5, to and excluding the applicable Early Redemption Date, or (B) otherwise, to and excluding the Maturity Date; *provided, however*, that if (upon due presentation thereof where presentation is required) 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 Interest Rate to (but excluding) the Relevant Date; and
- (ii) interest on the Notes shall be payable semi-annually in arrears on February 17 and August 17 of each year (each, an “**Interest Payment Date**”), commencing on February 17, 2013.

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

All U.S. dollar 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 Calculation Agent shall cause each interest amount payable on the Early Redemption Date (if the Notes are to be early redeemed pursuant to Condition 5) and such other information as may be determined by it to be notified to the Holders in accordance with Condition 13 no later than two Business Days prior to the Early Redemption Date.

All determinations made by the Calculation Agent for the purposes of this Condition 4 shall, in the absence of manifest error, be final and binding on the Issuer and the Holders.

(c) *Calculation Agent*

So long as any Note is outstanding, the Issuer shall at all times maintain a Calculation Agent. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails to (i) duly calculate the interest amount payable on the Early Redemption Date (if the Notes are to be early redeemed pursuant to Condition 5) or (ii) comply with any other requirement in relation to the Notes, the Issuer shall appoint a leading bank or financial institution that is experienced in the calculations or determinations to be made by the Calculation Agent to act as such in the Calculation Agent's place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid. Any termination or appointment of the Calculation Agent pursuant to this clause (c) shall take effect not more than 45 and not less than 30 days' after the Issuer has notified the Holders of such termination or appointment pursuant to Condition 13; *provided, however*, that, in the case of insolvency, such termination or appointment shall take immediate effect.

## 5 REDEMPTION AND PURCHASE

(a) *Final Redemption*

Unless previously redeemed or purchased and cancelled and subject to Condition 6, 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 due to a Tax Event*

- (i) Upon the occurrence of a Tax Event at any time after the Issue Date and subject to clauses (e) and (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 "**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.

(c) *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 (e) 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) or (d) 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 date immediately preceding the Maturity Date.

(d) *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 (e) and (f) 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 percent 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 (d) if it has given the Holders an Amendment Notice pursuant to Condition 11.
- (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.

(e) *Early Redemption Notice*

If the Issuer elects to redeem the Notes pursuant to clause (b), (c) or (d) 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 13 (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**”).

(f) *Conditions for Early Redemption*

The Issuer may only redeem the Notes pursuant to clause (b) or (d) 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.

(g) *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 stabilization 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, surrendered to the Fiscal Agent for cancellation.

(h) *Cancellation*

All Notes redeemed in accordance with this Condition 5 shall be cancelled and may not be reissued or resold. All Notes purchased and surrendered to the Fiscal Agent for cancellation pursuant to clause (g) above shall be immediately cancelled upon surrender and may not be reissued or resold.

(i) *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 elects not 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 Relevant Trigger Capital 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 13.

- (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 Relevant Capital 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 13, 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 13 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, 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 Relevant Capital Ratio and Relevant Trigger Capital Ratio*

With respect to any Publication Date, (i) the Relevant Capital Ratio as of the relevant Balance Sheet Date, (ii) the Relevant Trigger Capital 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) All payments required to be made under the Notes shall be made available in good time in freely disposable U.S. dollars, which will be placed at the free disposal of the Fiscal Agent on behalf of the Holders. If the Scheduled Due Date for any payment under the Notes does not fall on a Business Day, the Issuer undertakes to effect payment for value on the 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 U.S. dollars 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 fulfillment of any other formality, save in respect of taxation; *provided, however*, that, in the case of Definitive Notes, such Notes must be presented, and surrendered in the case of redemption, at (i) the Specified Office of the relevant Paying Agent or (ii) the specified office(s) of any other agent(s) appointed for this purpose by the Fiscal Agent and notified to the Holders pursuant to Condition 13, as a condition to receipt of any such payment.
- (b) The receipt by the Fiscal Agent of the due and punctual payment of funds in U.S. dollars shall release the Issuer from its obligations under the Notes to the extent of such payment.
- (c) The Issuer reserves the right to terminate the appointment of the Fiscal Agent or any other Paying Agent and to appoint additional or other Paying Agents. Any such termination or appointment shall only take effect not more than 45 and not less than 30 days' after the Issuer has notified the Holders of such termination or appointment pursuant to Condition 13; *provided, however*, that, in the case of insolvency of any Paying Agent, any termination of

such Paying Agent and appointment of any additional or other Paying Agent shall take immediate effect. Notwithstanding the foregoing, so long as any Note is outstanding, the Issuer shall at all times maintain (i) a Fiscal Agent that is a participant of the Depositary and (ii) 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 August 24, 2011, 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) if the relevant Holder is liable for such Taxes on such Note as a result of such Holder being or having been at any time, for United States federal income tax purposes, a "ten percent shareholder" of UBS AG; or
  - (iii) 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
  - (iv) where such Tax is paid other than by deduction or withholding from a payment on such Note; or

- (v) where such Tax is imposed solely because the relevant Holder is a bank purchasing such Note in the ordinary course of its lending business; or
  - (vi) if the relevant Holder would have been able to avoid such withholding or deduction by presenting such Note (where presentment is required) to, or arranging to receive payment through, another Paying Agent (if any); or
  - (vii) more than 30 days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to receive the Additional Amounts if it had presented such Note (where presentment is required) for payment on the last day of such 30-day period; or
  - (viii) to the extent that such Tax is imposed or levied as a result of the relevant Holder, or the beneficial owner, of such Note not complying with any certification or identification requirement that would have enabled it to avoid the imposition of such Tax; or
  - (ix) with respect to any Tax withheld or deducted as a result of the failure of any person to whom such payment is being made to perfect an exemption from any withholding imposed pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "FATCA") and any regulations thereunder, agreements entered into pursuant thereto, or official interpretations thereof; or
  - (x) 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 set forth in (A) the EU Savings Tax Directive or (B) the draft legislation proposed by the Swiss Federal Council on August 24, 2011, including, without limitation, the requirement that a person other than the Issuer (such as any paying agent) withhold or deduct tax; or
  - (xi) 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 or at a date fixed for early redemption pursuant to clause (b), (c) or (d) of Condition 5, 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 or at a date fixed for early redemption pursuant to clause (b), (c) or (d) of Condition 5, and such failure shall continue unremedied for a period 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, (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, 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, any Holder may, by written notice to the Fiscal Agent at its Specified Office, 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 13, 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 (d) of Condition 5 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 15 (including, without limitation, (x) if the Substitute Issuer is organized and/or resident for tax purposes in a jurisdiction other than Switzerland and/or the United States and Connecticut, any amendments to any references to the jurisdictions of "Switzerland", on the one hand, or the "United States", "Connecticut" or "Stamford", on the other hand, contained herein, including, without limitation, amendments to the definition of the term "Bankruptcy Event", the definition of the term "Business Day", the governing law of the subordination provisions set forth in Condition 3 and the provisions of Condition 10), and (y) any amendments to reflect UBS AG's guarantee described in clause (a)(vi) of Condition 15), or (ii) formal, minor or technical in nature or (iii) necessary to correct a manifest error.
- (c) The parties to the Fiscal Agency Agreement may agree without the consent of the Holders to any amendment thereto that is (i) in the reasonable opinion of such parties, not materially prejudicial to the interests of the Holders, (ii) formal, minor or technical in nature, or (iii) necessary to correct a manifest error.
- (d) The Issuer shall notify the Holders of any amendments made pursuant to clause (b) or (c) of this Condition 11 in accordance with Condition 13, which notice shall state the date on which such amendment shall be effective.
- (e) Any amendment made pursuant to this Condition 11 shall be binding on the Holders in accordance with its terms.

## 12 REPLACEMENT

If Definitive Notes have been printed, any Definitive Note that is lost, stolen, mutilated, defaced or destroyed may be replaced, subject to applicable laws and regulations, at the Specified Office of the Fiscal Agent upon payment by the claimant of the fees, costs and expenses incurred by the Fiscal Agent and the Issuer in connection therewith and on such terms as to evidence, security and indemnity (which may provide, among other things, that if the Definitive Note allegedly or actually lost, stolen or destroyed is subsequently presented for payment there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Definitive Note subsequently presented) as the Issuer may require. Mutilated or defaced Definitive Notes must be surrendered before replacements will be issued.

## 13 NOTICES

- (a) So long as the Notes are represented by one or more Global Notes deposited with a custodian on behalf of the Depositary, notices to Holders shall be given by communication through the Fiscal Agent to the Depositary, and any notice so given shall be deemed to be validly given on the date of delivery to the Depositary.
- (b) If Definitive Notes have been printed, notices to Holders shall be valid if published in a leading English language daily newspaper published in New York (which is expected to be

The Wall Street Journal) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in the United States. Any such notice shall be deemed to have been given on the date of first publication.

#### 14 MEETINGS OF HOLDERS

The provisions on bondholder meetings set forth in article 1157 et seq. of the Swiss Code shall apply in relation to meetings of Holders, irrespective of any substitution of the Issuer or Issuing Branch Substitution pursuant to Condition 15.

So long as the Notes are represented by one or more Global Notes deposited with a custodian on behalf of the Depositary, the Holder of each Global Note shall (i) obtain instructions from the relevant Indirect Holders in respect of any noteholder meeting, (ii) vote at such noteholders meeting in respect of each Note represented by such Global Note in accordance with the instructions received from the relevant Indirect Holder and (iii) abstain from representing any Note at a noteholders meeting for which it has not received an instruction from the relevant Indirect Holder. Only the Notes for which the Holder received an instruction by the relevant Indirect Holder to take part at a noteholders meeting shall be deemed to be present or represented at such a noteholders meeting.

#### 15 SUBSTITUTION

- (a) The Issuer may, without the consent of the Holders, substitute any entity (whether or not such entity is organized 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 13, *provided* that:
  - (i) at least 95 percent 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 favor 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, 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 and, if UBS AG issues such guarantee through any office other than one of its U.S. branches or agencies, it has also obtained an irrevocable and unconditional guarantee of, or a letter of credit that irrevocably and unconditionally guarantees, all amounts due and payable by the Substitute Issuer under, or in respect of, the Notes pursuant to article 111 of the Swiss Code, which has been issued by either a bank that is a corporation organized and doing business under the laws of the United States or of any state or territory thereof or the District of Columbia or a U.S. branch or agency of a non-U.S. bank;
  - (vii) if the Substitute Issuer is not organized 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) if the Substitute Issuer is not organized under the laws of England, the Substitute Issuer has appointed a process agent as its agent in England to receive service of process on its behalf in relation to any legal proceedings arising out of or in connection with the Fiscal Agency Agreement.
- (b) Upon any substitution pursuant to clause (a) of this Condition 15, 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.
- (c) Prior to any substitution pursuant to clause (a) of this Condition 15, UBS AG may, without the consent of the Holders, upon giving no more than 30 and no less than 10 days' notice to the Holders in accordance with Condition 13, at any time after September 17, 2012, (i) cease to make payments of principal, interest and any other amounts due under the Notes and fulfill any of its other obligations and exercise any of its other rights and powers in respect of, or arising under, the Notes through its Stamford branch and (ii) commence making such payments, fulfilling such other obligations and exercising such powers and rights through its head offices in Basel and Zurich (an "**Issuing Branch Substitution**"), *provided* that, as of the time of giving the relevant notice, (A) the Issuer is not in default in respect of any amount payable under the Notes, (B) the Issuer would not be required to pay any Additional Amounts under these Terms and Conditions after giving effect to such Issuing Branch

Substitution that it would not have been required to pay if such Issuing Branch Substitution were not to occur, and (C) no registration under the United States Securities Act of 1933, as amended, and no qualification under the United States Trust Indenture Act of 1939, as amended, is required in connection with such Issuing Branch Substitution in order to permit the free transferability within the United States of the Notes or any beneficial interests therein, or, if any such registration or qualification is required, UBS AG has complied with such requirement. Upon an Issuing Branch Substitution pursuant to this clause (c), references to the "Issuer" in these Terms and Conditions, the Global Notes and the Fiscal Agency Agreement shall be construed accordingly, and references to the "United States", "Connecticut" and "Stamford" in these Terms and Conditions shall, unless the context otherwise requires, be construed as references to "Switzerland".

## 16 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 including being fungible for U.S. federal income tax purposes (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 16, references in these Terms and Conditions to "**Notes**" shall include such further notes, unless the context otherwise requires.

## 17 CURRENCY INDEMNITY

Any amount received or recovered by any Holder in a currency other than U.S. dollars (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 U.S. dollars 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 U.S. dollars with such amount on such date, on the first date on which it is practicable to do so). If the amount of U.S. dollars 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 17, 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 17 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.

## 18 NO SET-OFF BY HOLDERS

Subject to applicable law, each Holder and Indirect 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.

## **19 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.

## **20 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.

**USD 2,000,000,000**



**UBS AG  
Stamford Branch**

**Tier 2 Subordinated Notes due 2022**

**UBS Investment Bank  
BoA Merrill Lynch  
Citigroup  
Goldman, Sachs & Co.  
J.P. Morgan  
Morgan Stanley  
RBS  
Wells Fargo Securities**

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