

## IMPORTANT NOTICE

**IMPORTANT:** You must read the following disclaimer before continuing. The following disclaimer applies to the attached listing prospectus accessed from this page or otherwise received as a result of such access and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached listing prospectus. In accessing the attached listing prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access and you acknowledge that UBS Group AG together with its subsidiaries ("**UBS Group**" or "**UBS**") and its respective affiliates and others will rely upon the truth and accuracy of the following representations, acknowledgements and agreements. **IF YOU DO NOT AGREE TO THE TERMS DESCRIBED IN THIS DISCLAIMER, YOU MAY NOT OPEN THE ATTACHED LISTING PROSPECTUS.**

The attached listing prospectus is being furnished to you solely for your information and may not be forwarded, reproduced, redistributed or passed on in whole or in part, directly or indirectly, to any other person. The distribution of this listing prospectus in certain jurisdictions may be restricted by law and persons into whose possession this listing prospectus comes should inform themselves about, and observe any such restrictions. Failure to comply with this notice may result in a violation of the United States Securities Act of 1933, as amended (the "**Securities Act**"), or the applicable laws of other jurisdictions.

**Confirmation of Your Representation:** You have been sent the attached listing prospectus on the basis that you have confirmed to UBS, being the sender of the attached (i) that the electronic (or e-mail) address to which it has been delivered is not located in the United States, its territories and possessions, any State of the United States and the District of Columbia (including Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) and, if you are in the any European Economic Area ("**EEA**"), you are a qualified investor (as defined in Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC) (as amended or replaced) and (ii) that you consent to delivery by electronic transmission.

The attached listing prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither UBS nor any person who controls it or any director, officer, employee or agent of it, nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the listing prospectus distributed to you in electronic format and any hard copy version available to you on request from UBS.

You are reminded that the attached listing prospectus has been delivered to you on the basis that you are a person into whose possession this listing prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not nor are you authorised to deliver this listing prospectus to any other person.

**Restrictions:** Nothing on this electronic transmission constitutes an offer of securities for sale in the United States or any other jurisdiction where such offer is prohibited. Any securities to be issued will not be registered under the Securities Act and may not be offered or sold in the United States or to or for the account or benefit of US persons (as such terms are defined in Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Your attention is drawn to the first page of the attached listing prospectus. If you are in the United States or are a US person (as such term is defined in Regulation S), you should not open the attached listing prospectus. The attached listing prospectus may only be communicated to persons in the United Kingdom, in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply to the Issuer.

**The securities described in the listing prospectus are not intended to be sold and should not be sold to retail clients in the European Economic Area, as defined in the rules set out in the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "*Restrictions on marketing and sales to retail investors*" in the listing prospectus for further information.**

A hard copy of the listing prospectus may be obtained from your usual sales contact at UBS.

**NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES, CANADA, AUSTRALIA OR ANY OTHER JURISDICTION IN WHICH OFFERS OR SALES WOULD BE PROHIBITED BY LAW.**

  
UBS AG  
Urs Walser  
Managing Director



UBS GROUP AG

USD 1,250,000,000

7.125 per cent. Tier 1 Capital Notes

  
Jean-Pierre Matthey

This listing prospectus (the "Listing Prospectus") relates to the issue of USD 1,250,000,000 7.125 per cent. Tier 1 Capital Notes (the "Notes") by UBS Group AG (the "Issuer" and together with its subsidiaries, "UBS Group" or "UBS"). The issue price of the Notes is 100 per cent. of their principal amount. Subject to the right of the Issuer to cancel any payment of interest in respect of the Notes in accordance with Condition 4(i) (*Cancellation of Interest; Prohibited Interest*) and subject to Condition 6 (*Contingent Write-down*), interest will accrue on the principal amount of the Notes (i) from (and including) 19 February 2015 (the "Issue Date") to (but excluding) 19 February 2020 (the "First Call Date"), at 7.125 per cent. per annum payable annually in arrear, and (ii) thereafter, at the applicable Reset Interest Rate (as defined in Condition 4 (*Interest*)) per annum, payable annually in arrear. Interest payments on the Notes will be made without withholding or deduction for or on account of taxes of Switzerland to the extent described herein under Condition 8 (*Taxation*). The Issuer may elect, in its sole discretion, to cancel in whole or in part any payment of interest in respect of the Notes which is otherwise scheduled to be paid on an Interest Payment Date and payments of interest in respect of the Notes must also not be made in certain other circumstances as provided in Condition 4(i) (*Cancellation of Interest; Prohibited Interest*). Interest payments in respect of the Notes will be non-cumulative. Accordingly, if any payment of interest (or part thereof) is not made in respect of the Notes then the right of the Noteholders to receive the relevant interest payment (or part thereof) will be extinguished (and shall not accumulate) and the Issuer will have no obligation to pay such interest payment (or part thereof), whether or not future interest payments on the Notes are paid. The cancellation of interest will not constitute an event of default or entitle any action to be taken by Noteholders and Holders shall have no right thereto whether in a winding-up, dissolution or liquidation of the Issuer or otherwise.

The Notes are perpetual securities and have no fixed or final redemption date. Unless previously redeemed or purchased and cancelled, and provided that no Contingent Write-down (as defined herein) has occurred, the Notes may, subject to the satisfaction of certain conditions described herein and applicable law, be redeemed at the option of the Issuer, on the First Call Date or on any Interest Payment Date thereafter, in whole but not in part, at their aggregate principal amount, together with any accrued and unpaid interest thereon. The Notes are also subject to redemption, in whole but not in part, at the option of the Issuer, upon the occurrence of (i) a Tax Event or (ii) a Regulatory Event (each as defined herein), as more particularly described in Condition 5 (*Redemption and Purchase*).

If either a Trigger Event or a Viability Event (each as defined herein) occurs, a Contingent Write-down will occur at the relevant Write-down Date. In such circumstances, interest on the Notes shall cease to accrue, the full principal amount of each Note will automatically and permanently be written-down to zero, Holders (as defined herein) will lose their entire investment in the Notes and all accrued and unpaid interest thereon irrespective of whether such amounts have become due and payable prior to the relevant Write-down Notice Date, as further described in Condition 6 (*Contingent Write-down*). All rights of any Holder for the payment of any amounts under or in respect of the Notes will become null and void. See "Risk Factors – The Notes may be subject to a Contingent Write-down". Each Holder and beneficial owner of a Note acknowledges and agrees, by accepting a direct or beneficial interest in such Note, to be bound by and consents to the application of the Contingent Write-down.

The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and shall rank *pari passu* and without any preference among themselves, as more particularly described in Condition 3 (*Status and Subordination*).

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

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

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

The Notes will be issued to Holders (as defined herein) in minimum denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof. The Notes may only be held and transferred, and may only be offered and sold, in minimum denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof. The Notes will be issued in uncertificated form (*Wertrechte*) and governed by Swiss law. It is expected that delivery of the Notes will be made through the systems operated by SIX SIS AG, Olten, Switzerland ("SIX SIS") on 19 February 2015. See Condition 2 (*Amount and Denomination; Form and Transfer*) for more details.

The Notes have been provisionally admitted to trading on the SIX Swiss Exchange Ltd (the "SIX Swiss Exchange") from 19 February 2015. The last trading day is expected to be the second dealing day prior to the date on which the Notes are fully redeemed or the Write-down Date, as applicable, in accordance with the Terms and Conditions of the Notes. Application will be made for the Notes to be listed on the SIX Swiss Exchange.

**The Notes are not intended to be sold and should not be sold to retail clients in the European Economic Area ("EEA"), as defined in the rules set out in the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time) other than in circumstances that do not and will not give rise to a contravention of those rules by any person. Prospective investors are referred to the section headed "Restrictions on marketing and sales to retail investors" on page 1 of this Listing Prospectus for further information.**

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

GLOBAL COORDINATOR, SOLE BOOKRUNNER AND ARRANGER

UBS INVESTMENT BANK

JOINT LEAD MANAGERS

BARCLAYS

RBC CAPITAL MARKETS

SEB

THE ROYAL BANK OF SCOTLAND

DANSKE BANK

SCOTIABANK

SMBC NIKKO

WELLS FARGO SECURITIES

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## IMPORTANT NOTICES

### Restrictions on marketing and sales to retail investors

The Notes discussed in this Listing Prospectus are complex financial instruments and are not a suitable or appropriate investment for all investors. In some jurisdictions, regulatory authorities have adopted or published laws, regulations or guidance with respect to the offer or sale of securities such as the Notes to retail investors.

In particular, in August 2014, the United Kingdom Financial Conduct Authority (the "FCA") published the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time, the "TMR") which took effect on 1 October 2014. Under the rules set out in the TMR (as amended or replaced from time to time, the "TMR Rules"), certain contingent write-down or convertible securities, such as the Notes must not be sold to retail clients in the EEA and nothing may be done that would or might result in the buying of such securities or the holding of a beneficial interest in such securities by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than in accordance with the limited exemptions set out in the TMR Rules.

By purchasing, or making or accepting an offer to purchase, any Notes from the Issuer and/or the Joint Lead Managers (named under "*Subscription and Sale*" below), each prospective investor represents, warrants, agrees with and undertakes to the Issuer and each of the Joint Lead Managers that:

- (i) it is not a retail client in the EEA (as defined in the TMR Rules);
- (ii) whether or not it is subject to the TMR Rules, it will not sell or offer the Notes to retail clients in the EEA or do anything (including the distribution of this Listing Prospectus) that would or might result in the buying of the Notes or the holding of a beneficial interest in the Notes by a retail client in the EEA (in each case within the meaning of the TMR Rules), other than (i) in relation to any sale of or offer to sell Notes to a retail client in or resident in the United Kingdom, in circumstances that do not and will not give rise to a contravention of the TMR Rules by any person and/or (ii) in relation to any sale of or offer to sell Notes to a retail client in any EEA member state other than the United Kingdom, where (a) it has conducted an assessment and concluded that the relevant retail client understands the risks of an investment in the Notes and is able to bear the potential losses involved in an investment in the Notes and (b) it has at all times acted in relation to such sale or offer in compliance with the Markets in Financial Instruments Directive (2004/39/EC) ("MiFID") to the extent it applies to it or, to the extent MiFID does not apply to it, in a manner which would be in compliance with MiFID if it were to apply to it; and
- (iii) it will at all times comply with all applicable laws, regulations and regulatory guidance (whether inside or outside the EEA) relating to the promotion, offering, distribution and/or sale of the Notes, including any such laws, regulations and regulatory guidance relating to determining the appropriateness and/or suitability of an investment in the Notes by investors in any relevant jurisdiction.

Where acting as agent on behalf of a disclosed or undisclosed client when purchasing, or making or accepting an offer to purchase, any Notes from the Issuer and/or the Joint Lead Managers the foregoing representations, warranties, agreements and undertakings will be given by and be binding upon both the agent and its underlying client.

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

The Issuer has confirmed to the Joint Lead Managers that this Listing Prospectus contains all information regarding the Issuer and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Listing Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Listing Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in

such context) not misleading in any material respect; and all reasonable enquiries have been made to ascertain and to verify the accuracy of the foregoing.

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

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

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Listing Prospectus or for any other statement, made or purported to be made by the Joint Lead Managers or on their behalf in connection with the Issuer or the issue and offering of the Notes. The Joint Lead Managers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which they might otherwise have in respect of this Listing Prospectus or any such statement.

Prospective investors should inform themselves as to the legal requirements and tax consequences within the countries of their residence and domicile for the acquisition, holding or disposal of Notes and any foreign exchange restrictions that might be relevant to them and must obtain any consent, approval or permission required by it for the acquisition, holding or disposal of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such acquisition, holding or disposal, and the Issuer and the Joint Lead Managers shall not have any responsibility therefor.

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

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

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

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

This Listing Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this Listing Prospectus may only do so in circumstances in which no obligation arises for the Issuer or any of the Joint Lead Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Joint Lead Managers have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or the Joint Lead Managers to publish or supplement a prospectus for such offer. The expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in

the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

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

In connection with the issue of the Notes, UBS Limited (the "**Stabilising Manager**") (or any person acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

In addition, the Issuer granted to the Joint Lead Managers an over-allotment option which, if exercised, would have required the Issuer to increase the nominal amount of the issuance by up to 10 per cent. to a maximum nominal amount of USD 1,265,000,000. This over-allotment option was exercised in part by the Joint Lead Managers on 17 February 2015 thereby increasing the aggregate nominal amount of the issuance to USD 1,250,000,000. A single closing of the issuance of the Notes will take place on 19 February 2015.

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

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) UBS AG's annual report for the year ended 31 December 2013 ("**Annual Report 2013**"), which UBS AG filed on Form 20-F with the United States Securities and Exchange Commission (the "**SEC**") on 14 March 2014, and UBS AG's annual report for the year ended 31 December 2012 ("**Annual Report 2012**"), which UBS AG filed on Form 20-F with the SEC on 14 March 2013;
- (b) the Issuer's financial results related submissions on Form 6-K, made on 10 February 2015, containing the Fourth Quarter 2014 Financial Report, the Presentation Materials and the Capitalization Table and Ratio of Earnings to Fixed Charges<sup>1</sup>;
- (c) UBS AG's financial results related submissions on Form 6-K, made on the following dates:
  - (i) four submissions dated 6 May 2014, containing the First Quarter 2014 Financial Report, the Presentation Materials, the Capitalization Table and Ratio of Earnings to Fixed Charges and the Basel III Pillar 3 update;
  - (ii) four submissions dated 29 July 2014, containing the Second Quarter 2014 Financial Report, the Presentation Materials, the Capitalization Table and Ratio of Earnings to Fixed Charges and the Supplemental Guarantor Materials; and
  - (iii) three submissions dated 28 October 2014, containing the Third Quarter 2014 Financial Report, the Presentation Materials, and the Capitalization Table and Ratio of Earnings to Fixed Charges.

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

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

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

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<sup>1</sup> Under IAS 10 IFRS, events that occur subsequent to 31 December 2014 and prior to publication of the annual audited financial statements for the year ended 31 December 2014 may require adjustment to the amounts in the financial statements such as result in a changes in management's estimates of provisions for, among other items, litigation, regulatory and similar matters, compensation and benefits, and asset impairments. The recognition of such events in the audited financial statements may result in adjustments to UBS's published results for the quarter ended 31 December 2014.

## SUMMARY

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

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

The Issuer:	UBS Group AG (the " <b>Issuer</b> ").
The Notes:	USD 1,250,000,000 7.125 per cent. Tier 1 Capital Notes.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Notes. Certain of these factors are set out under " <i>Risk Factors</i> " below and include, among others, risks relating to regulatory and legislative changes, reputation, market, liquidity and legal risks and the general economic situation. In addition, there are certain factors that are material for purposes of assessing the risks associated with the Notes. These include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of the Notes (including that they are subject to a Contingent Write-down upon the occurrence of a Trigger Event or if the Issuer gives a Write-down Notice to the Holders upon the occurrence of a Viability Event, both of which would result in Holders' loss of the entire investment in the Notes) and certain market risks.
Global Coordinator, Bookrunner and Arranger:	Sole UBS Limited.
Joint Lead Managers:	Barclays Bank PLC, Danske Bank A/S, RBC Europe Limited, Scotiabank Europe plc, Skandinaviska Enskilda Banken AB, SMBC Nikko Capital Markets Limited, The Royal Bank of Scotland plc and Wells Fargo Securities International Limited.
Issue Price:	100 per cent. of the principal amount of the Notes.
Form of the Notes:	The Notes will be issued in uncertificated form ( <i>Wertrechte</i> ) and will be entered into the main register ( <i>Hauptregister</i> ) of SIX SIS or any other intermediary in Switzerland recognised for such purposes by the SIX Swiss Exchange. Neither the Issuer nor any holder of a Note nor any third party will at any time have the right to effect or demand the conversion of any Note into, or the delivery of a Note in, global or definitive form.
Clearing System:	SIX SIS.
Principal Paying Agent and Calculation Agent:	UBS AG fulfils the function of paying agent for the Notes. The Issuer reserves the right to appoint or, after any such appointment, to terminate the appointment of, one or more paying agents to carry out any payment, calculation or other functions in respect of the Notes.
Swiss Listing Agent:	UBS AG.
Issue Date:	19 February 2015.



Currency:	US dollars ("USD").
Denomination:	<p>The Notes will be issued to Holders in minimum denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof.</p> <p>The Notes may only be held and transferred in minimum denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof.</p>
Maturity:	The Notes are perpetual securities in respect of which there is no fixed or final redemption date. Unless previously redeemed or purchased and cancelled, and provided that no Contingent Write-down has occurred and subject to the satisfaction of certain conditions described in Condition 5 ( <i>Redemption and Purchase</i> ) and applicable law, the Notes may be redeemed at the option of the Issuer on the First Call Date or any Interest Payment Date thereafter, in whole but not in part, at their aggregate principal amount, together with any accrued and unpaid interest thereon.
Interest:	Subject to Condition 6 ( <i>Contingent Write-down</i> ) and Condition 4(h) ( <i>Accrual of Interest in the case of Redemption or a Write-down Event</i> ), the Notes will bear interest on their principal amount (i) from (and including) the Issue Date to (but excluding) the First Call Date at 7.125 per cent. per annum and (ii) thereafter, at the applicable Reset Interest Rate per annum.
Interest Payment Dates:	Subject to Condition 6 ( <i>Contingent Write-down</i> ) and Condition 4(i) ( <i>Cancellation of Interest; Prohibited Interest</i> ), interest on the Notes will be payable annually in arrear on 19 February of each year, commencing on 19 February 2016.
Discretionary Interest Payments:	The Issuer may elect, in its sole discretion, to cancel all or part of any payment of interest in respect of the Notes which is otherwise scheduled to be paid on an Interest Payment Date. In addition, payments of interest in respect of the Notes must not be made in certain other circumstances as provided in Condition 4(i) ( <i>Cancellation of Interest; Prohibited Interest</i> ). Interest payments in respect of the Notes will be non-cumulative. Accordingly, if any payment of interest (or part thereof) is not made in respect of the Notes then the right of the Noteholders to receive the relevant interest payment (or part thereof) will be extinguished (and shall not accumulate) and the Issuer will have no obligation to pay such interest payment (or part thereof), whether or not future interest payments on the Notes are paid. The cancellation of interest will not constitute an event of default for any purpose or entitle any action to be taken by Noteholders and Holders shall have no right thereto whether in a winding-up, dissolution or liquidation of the Issuer or otherwise.
Restrictions following failure to pay Interest:	If any payment of interest is not made in full pursuant to Conditions 4(i)(i) or 4(i)(ii), UBS Group AG shall not; (a) recommend to holders of its Ordinary Shares that any dividend or other distribution in cash or in kind (other than in the form of Ordinary Shares) be paid or made on any Ordinary Shares; and (b) redeem, purchase or otherwise acquire any Ordinary Shares other than as a Permitted Transaction, unless and until either (x) the interest payment due and payable on the Notes on any subsequent Interest Payment Date has been paid or (y) all outstanding Notes have been cancelled.

Optional Redemption:	<p>Unless previously redeemed or purchased and cancelled, and provided that a Contingent Write-down has not occurred on or prior to the applicable date fixed for redemption and subject to certain conditions as described herein under Condition 5 (<i>Redemption and Purchase</i>), the Issuer may elect, in its sole discretion, to redeem the Notes, in whole but not in part in the following circumstances:</p> <ul style="list-style-type: none"> <li>(i) on the First Call Date or on any other Interest Payment Date thereafter at their aggregate principal amount, together with any accrued and unpaid interest thereon to (but excluding) the First Call Date or such other Interest Payment Date, as applicable; or</li> <li>(ii) upon the occurrence of a Tax Event at any time after the Issue Date, at their aggregate principal amount on the relevant Redemption Date, together with any accrued and unpaid interest thereon to (but excluding) such Redemption Date; or</li> <li>(iii) upon the occurrence of a Regulatory Event at any time after the Issue Date, at their aggregate principal amount on the relevant Redemption Date, together with any accrued and unpaid interest thereon to (but excluding) such Redemption Date,</li> </ul> <p><b>provided that</b> (x) in the case of any redemption described in clauses (i) or (ii) above, the Swiss Financial Market Supervisory Authority FINMA (the "<b>FINMA</b>") has approved such redemption in writing and no Trigger Event or Viability Event has occurred prior to the relevant Redemption Date and (y) in all cases, the Issuer has complied with the relevant requirements, all as more particularly described in Condition 5(e) (<i>Conditions for Redemption</i>).</p>
Purchases:	<p>The Issuer or any other member of UBS or any of their respective affiliates may at any time purchase Notes at any price in the open market or otherwise, <b>provided that</b> (i) such purchase complies with any limits or conditions to which any member of UBS is subject under applicable banking laws and regulations at the time of such purchase, (ii) other than in the case of purchases made in connection with stabilisation measures in compliance with applicable law or in connection with any market making in the Notes, the FINMA has approved such purchase (if such approval is then required) on or prior to the date of such purchase and (iii) no Trigger Event or Viability Event has occurred prior to the date of such purchase. Any Notes so purchased may, at the option of the Issuer, be held, reissued, resold or cancelled.</p>
Contingent Write-down:	<p><b>Following the occurrence of a Trigger Event or Viability Event, a Contingent Write-down will occur and the full principal amount of the Notes will automatically and permanently be written-down to zero on the Write-down Date.</b></p> <p>If a Trigger Event occurs or, upon the occurrence of a Viability Event, the Issuer gives a Write-down Notice to the Holders in accordance with the terms of the Notes, then as of the relevant Write-down Date:</p>

- (i) the full principal amount of, and any accrued and unpaid interest (whether or not due and payable) on, each Note will automatically be written down to zero and the Notes will be cancelled;
- (ii) the Holders will be automatically deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Issuer with respect to repayment of the aggregate principal amount of, and payment of any accrued and unpaid interest on, the Notes written down as described in clause (i) above; and
- (iii) 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.

**Each Holder and beneficial owner of a Note acknowledges and agrees, by accepting a direct or beneficial interest in such Note, to be bound by and consents to the application of the Contingent Write-down.**

Trigger Event:

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

The Issuer is required to give the Holders a Trigger Event Write-down Notice (within the required notice period) if the Trigger CET1 Ratio as of the relevant Publication Date is less than the Write-down Threshold.

Notwithstanding the above, in the case of an Ordinary Publication Date, if the FINMA, upon the request of UBS Group 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 UBS or circumstances or events, in each case, that have had, or imminently will have, the effect of restoring the CET1 Ratio as of the Balance Sheet Date relating to such Ordinary Publication Date, after giving *pro forma* effect to such actions, circumstances or events, to a level above the Write-down Threshold that the FINMA and the Issuer deem, in their sole discretion, to be adequate at such time, the Issuer shall not give a Trigger Event Write-down Notice and shall 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 Higher-Trigger Contingent Capital is outstanding on the relevant Publication Date, the date on which the Issuer gives the Trigger Event Write-down Notice and/or the Trigger Event Write-down Date may be postponed, as more particularly described in clause (b)(ii) of Condition 6 (*Contingent Write-down*).

Viability Event:

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

an Alternative Loss Absorption Date (if any):

- (i) the FINMA has notified the Issuer 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 all other capital instruments issued by, or other capital obligations (whether qualifying fully or partially for capital treatment) of, any member of UBS 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 the Group Holding Company's (as defined in the Conditions) capital adequacy are at the time inadequate or infeasible, an essential requirement to prevent the Group Holding Company 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 the Group Holding Company's capital adequacy being at the time inadequate or infeasible, the Group Holding Company 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 the Group Holding Company's capital adequacy and without which, in the determination of (and as notified in writing by) the FINMA, the Group Holding Company 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.

Taxation:

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

Events of Default:

It will be an Event of Default if:

- the payment of the principal amount of any Note, if and when the same becomes due and payable under the Conditions, is more than 30 days overdue; or
- the payment of any interest amount, if and when such interest becomes due and payable under the Conditions,

	<p>on any Note is more than 30 days overdue; or</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• a Bankruptcy Event occurs.</li> </ul> <p>However, upon the occurrence of an Event of Default, Holders have limited enforcement remedies, as more particularly described in Condition 10 (<i>Events of Default</i>). See also "<i>Risk Factors—There are limited remedies available under the Notes</i>".</p>
Substitution and Amendment:	<p>If a Tax Event, a Regulatory Event or an Alignment Event has occurred and is continuing, the Issuer may, subject to certain conditions as described herein under Condition 11 (<i>Substitution and Amendment</i>), without the consent of the Holders unless so required by the mandatory provisions of Swiss law, either substitute all, but not some only, of the Notes for, or amend the terms and conditions of the Notes so that they remain or become, Compliant Securities, as more particularly described in Condition 11 (<i>Substitution and Amendment</i>).</p>
Issuer Substitution:	<p>Holders will be deemed to have acknowledged, and explicitly consented to, the fact that the Issuer may at any time, without the consent of the Holders, substitute any entity (whether or not such entity is organised under the laws of Switzerland) for itself as principal debtor under the Notes, <b>provided that</b> certain conditions are satisfied, as more particularly described in paragraph (a) of Condition 13 (<i>Issuer Substitution</i>).</p>
Use of Proceeds:	<p>The net proceeds of the issue of the Notes will be used by UBS Group AG to augment the regulatory capital base of the UBS Group. See "<i>Use of Proceeds</i>".</p>
Status of the Notes:	<p>The Notes will constitute direct, unsecured and subordinated obligations of the Issuer and rank <i>pari passu</i> and without any preference among themselves. The rights and claims of the Holders against the Issuer under the Notes are subordinated as described in Condition 3(b) (<i>Status and Subordination - Subordination</i>).</p> <p>Holders have limited enforcement remedies under the Notes, as more particularly described in Condition 10 (<i>Events of Default</i>). See also "<i>Risk Factors—There are limited remedies available under the Notes</i>".</p>
Rating:	<p>The Notes are expected to be rated BB by Standard &amp; Poor's and BB+ by Fitch.</p>
Listing and Trading:	<p>The Notes have been provisionally admitted to trading on the SIX Swiss Exchange from 19 February 2015. The last trading day is expected to be the second dealing day prior to the date on which the Notes are fully redeemed or the Write-down Date, as applicable, in accordance with the Terms and Conditions of the Notes. Application will be made for the Notes to be listed on the SIX Swiss Exchange.</p>
Governing Law:	<p>The Notes will be governed by Swiss law. The Subscription Agreement will be governed by English law.</p>

Jurisdiction:	The courts of the city of Zurich, Switzerland, shall have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes.
Selling Restrictions:	See " <i>Subscription and Sale</i> ".
United States Selling Restrictions:	Regulation S, Category 2.
Security Codes:	ISIN: CH0271428317 Common Code: 119312477 Swiss Security Number: 27142831

## RISK FACTORS

*Investing in the Notes involves risk, including the risk of loss of a Holder's entire investment in the Notes. Prospective investors should reach their own investment decision with regard to the Notes only after consultation with their own financial and legal advisers about risks associated with an investment in the Notes and the suitability of investing in the Notes in light of their particular circumstances.*

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

### **Risks relating to the Notes**

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

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

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

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

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

Investors will lose the entire amount of their investment in the Notes following the occurrence of a Trigger Event or a Viability Event, each of which will lead to a Contingent Write-down. Upon the occurrence of a Contingent Write-down, the full principal amount of, and any accrued and unpaid interest

on, the Notes will be automatically and permanently written-down to zero and the Notes will be cancelled as of the relevant Write-down Date.

Furthermore, following the occurrence of a Contingent Write-down and as of the relevant Write-down Date, (i) interest will cease to accrue and (ii) all 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.

Any Contingent Write-down will be irrevocable and the holders will, upon the occurrence of a Contingent Write-down, not (i) receive any shares or other participation rights of UBS Group AG or be entitled to any other participation in the upside potential of any equity or debt securities issued by UBS Group AG or any other member of UBS, or (ii) be entitled to any subsequent write-up or any other compensation in the event of a potential recovery of UBS Group AG or UBS or any subsequent change in the CET1 Ratio or Higher-Trigger Amount or financial condition. A Contingent Write-down may occur even if existing shares of UBS Group AG remain outstanding. Furthermore, the Issuer's current and future other outstanding parity and junior securities might not include write-down or similar features with triggers comparable to those of the Notes. As a result, it is possible that the Notes will be subject to a Contingent Write-down, while such other securities remain outstanding and continue to receive payments.

A Trigger Event will be deemed to have occurred if the Issuer notifies the holders that UBS's Trigger CET1 Ratio has fallen below the Write-down Threshold of 7.000 per cent. A Viability Event will be deemed to have occurred if (i) the FINMA determines that a Contingent Write-down is necessary to prevent the insolvency, bankruptcy or failure of the Group Holding Company to pay a material part of its debts as they fall due or to prevent the Group Holding Company from becoming unable to carry on its business or (ii) the Group Holding Company 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 the Group Holding Company to pay a material part of its debts as they fall due or to prevent the Group Holding Company from becoming unable to carry on its business. Either could occur before formal insolvency or restructuring proceedings would be commenced in respect of the Group Holding Company.

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

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

The occurrence of a Trigger Event under the Notes depends, in part, on the calculation of the Trigger CET1 Ratio. This calculation could be affected by, among other things, the growth of UBS's business and its future earnings, future dividend payments by UBS Group AG, regulatory changes (including changes to regulatory capital definitions and calculations) and UBS's ability to mitigate risk weighted assets in accordance with its plans. This calculation may also be affected by changes in applicable accounting rules or by changes to regulatory adjustments modifying the regulatory capital impact of accounting rules. Moreover, even if changes in applicable accounting rules or the related changes to regulatory adjustments are not applicable as of the relevant calculation date, the FINMA could require UBS Group AG to reflect such changes in any particular calculation of the CET1 Ratio. Those accounting changes may have a material adverse impact on the calculation of the CET1 Capital and BIS Risk Weighted Assets used to calculate the CET1 Ratio. Furthermore, although UBS Group AG reports the CET1 Ratio only as of each quarterly period end, the FINMA as part of its supervisory activity may instruct UBS Group AG to calculate the CET1 Ratio as of any date during such periods. The CET1 Ratio and other capital metrics fluctuate during any reporting period in the ordinary course of business. In addition, the occurrence of a Trigger Event depends on the Higher-Trigger Amount. The Higher-Trigger Amount will fluctuate with any future issuance, redemption, maturity of or other reduction in Higher-Trigger Contingent Capital, although, the terms and conditions of the relevant Higher-Trigger Contingent Capital may permit FINMA to waive the conversion into equity or write-down of the relevant Higher-Trigger Contingent Capital.

Furthermore, changes that may occur to National Regulations and/or the BIS Regulations subsequent to the date of this Listing Prospectus, and changes to the basis of UBS Group AG's calculation of the CET1 Ratio resulting therefrom, may individually or in the aggregate negatively affect the CET1 Ratio, including the Trigger CET1 Ratio, and thus increase the risk of a Contingent Write-down, as a result of



which Holders will lose their entire investment in the Notes and have no further rights against UBS Group AG with respect to the repayment of the principal amount of the Notes or the payment of interest on the Notes.

The occurrence of a Viability Event is dependent upon, among other things, the subjective determination of the FINMA regarding the viability of UBS Group 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 all other capital instruments issued by, or other capital obligations (whether qualifying fully or partially for capital treatment), of any member of UBS 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 Group AG's capital adequacy are inadequate or infeasible, an essential requirement to prevent UBS Group 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 Group AG's capital adequacy are inadequate or infeasible and, as a result, UBS Group 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 Group AG would have become insolvent, bankrupt, unable to pay a material portion of its debts as they fall due or unable to carry on its business without such extraordinary support, and the FINMA has considerable discretion in making such determination. As a result, the FINMA may require, or the Swiss federal government may take actions contributing to the occurrence of, a Contingent Write-down in circumstances that are beyond the control of the Issuer and with which the Issuer may not agree.

Due to the inherent uncertainty regarding the determination as to whether a Trigger Event or a Viability Event has occurred, it will be difficult to predict when, if at all, a Contingent Write-down will occur. Accordingly, the trading behaviour of the Notes is not necessarily expected to follow the trading behaviour of other types of subordinated securities. Any indication that the condition of UBS 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.

***Interest payments on the Notes may be cancelled by the Issuer (in whole or in part) at any time and, in certain circumstances, the Issuer will be required to cancel such interest payments.***

The Issuer may elect, in its sole and absolute discretion, to cancel in whole or in part any payment of interest in respect of the Notes which is otherwise scheduled to be paid on an Interest Payment Date.

Furthermore, the Issuer shall be prohibited from making, in whole or in part, any payment of interest on the Notes on the relevant Interest Payment Date if and to the extent that (A) the amount of Distributable Items as at such Interest Payment Date is less than the sum of (1) the amount of such interest payment, plus (2) all other payments (other than redemption payments) made by UBS Group AG on the Notes and on or in respect of any Parity Obligations or Junior Obligations since the balance sheet date of the Relevant Accounts and prior to such Interest Payment Date, plus (3) all amounts (other than redemption amounts) payable by UBS Group AG on such Interest Payment Date on or in respect of any Parity Obligations or Junior Obligations, in the case of each clauses (1), (2) and (3), excluding any portion of such payments already accounted for in determining the amount of such Distributable Items; and/or (B) UBS Group AG is not, or will immediately after the relevant payment of interest not be, in compliance with all applicable minimum capital adequacy requirements of National Regulations on a consolidated (*Finanzgruppe*) basis (for the avoidance of doubt, it being understood that such minimum requirements will reflect any reduction in such requirements granted by the FINMA to the UBS Group pursuant to the Capital Adequacy Ordinance); and/or (C) the FINMA has required the Issuer not to make such interest payment (*see further – Condition 4(i) (Cancellation of Interest; prohibited interest)*). The Distributable Items will be calculated based on the non-consolidated audited financial statements of the Issuer from time to time in accordance with the Swiss Code of Obligations. Since the Issuer was only incorporated on 10 June 2014, no Distributable Items will be available until and unless the Issuer's first set of audited financial statements is approved by the annual general meeting of shareholders which is scheduled for 7 May 2015.

Interest payments in respect of the Notes will be non-cumulative. Accordingly, if any payment of interest (or part thereof) is not made in respect of the Notes then the right of the Holders to receive the relevant interest payment (or part thereof) will be extinguished (and shall not accumulate) and the Issuer will have no obligation to pay such interest payment (or part thereof), whether or not future interest payments on

the Notes are paid. The cancellation of interest will not constitute an event of default or entitle any action to be taken by Holders and Holders shall have no right thereto whether in a winding-up, dissolution or liquidation of the Issuer or otherwise.

***Other regulatory capital instruments may not be subject to a write-down.***

The terms and conditions of other regulatory capital instruments already in issue or to be issued after the date hereof by UBS Group AG or any of its subsidiaries may vary and accordingly such instruments may not convert into equity or be written-down at the same time, or to the same extent, as the Notes, or at all. In particular, regulatory capital instruments qualifying as Higher-Trigger Contingent Capital with respect to the Notes may not be converted or written-down in case of the occurrence of a Trigger Event if the relevant threshold for triggering a conversion or write down, as the case may be, under those instruments is calculated differently. Also, regulatory capital instruments issued by any subsidiary of UBS Group AG that are required pursuant to their terms to be converted into equity and/or fully or partially written down when the relevant capital measure falls below the relevant write-down threshold, or a viability event occurs, may not be converted or written-down in case of the occurrence of a Trigger Event or a Viability Event if the events triggering a conversion or write down, as the case may be, under the terms of those instruments are determined with respect to a group or subgroup of entities that is different from the Group.

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

If at any time a Regulatory Event, Tax Event or Alignment Event occurs and is continuing, in addition to its option to redeem the Notes, if applicable, the Issuer has the option, without the consent of the Holders (unless then so required by mandatory provisions of Swiss law), to substitute all (but not some only) of the Notes for, or vary the terms of the Notes so that they remain or, as appropriate, become, Compliant Securities, as described under Condition 11 (*Substitution and Amendment*). While the Issuer cannot so substitute the Notes for securities that have, or so vary the terms of the Notes so that they have, economic terms materially less favourable to a Holder than the terms of the Notes, no assurance can be given as to whether such substitution or variation will negatively affect any particular Holder. In addition, the tax and stamp duty consequences of holding such substituted or 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 substitution or amendment.

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

***Holders will bear the risk of fluctuations in the CET1 Ratio and/or Trigger CET1 Ratio.***

The market price of the Notes is expected to be affected by fluctuations in the CET1 Ratio since the amount of CET1 Capital may vary, as may the amount of the BIS Risk Weighted Assets. Moreover, the market price of the Notes may be affected by fluctuations of the Trigger CET1 Ratio since the applicable Higher-Trigger Amount may vary with the future issuance, redemption, maturity of or other reduction in Higher-Trigger Contingent Capital (see "*Risk Factors – The circumstances surrounding or triggering a Contingent Write-Down are unpredictable*" above). Any indication that the CET1 Ratio and/or Trigger CET1 Ratio, as the case may be, is trending towards a Trigger Event may have an adverse effect on the market price of the Notes. The level of the CET1 Ratio and/or Trigger CET1 Ratio, as the case may be, may significantly affect the trading price of the Notes.

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

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

The Notes will initially bear interest at the fixed rate of 7.125 per cent. per annum until (but excluding) the First Call Date. From (and including) the First Call Date, however, the interest rate will be reset to the Reset Interest Rate in relation to the relevant Reset Interest Period (as described under Condition 4 (*Interest*)). There can be no assurance that the Reset Interest Rate will be sufficient to ensure that the market value of the Notes will not be adversely affected.

***The Notes are perpetual securities.***

The Notes are perpetual securities, which means they have no scheduled repayment date. The Issuer is under no obligation to redeem the Notes at any time before the date on which voluntary or involuntary liquidation proceedings are instituted in respect of the Issuer (should such proceedings ever be instituted).

***The Issuer may, in its sole discretion, elect to redeem the Notes on the First Call Date or any Interest Payment Date thereafter or upon the occurrence of certain events.***

The Terms and Conditions provide that the Notes are redeemable at the Issuer's option on the First Call Date or on any Interest Payment Date thereafter, or in certain circumstances such as a Tax Event or a Regulatory Event at any time, 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 UBS on a *pro rata* basis or otherwise upon the occurrence of any event giving the Issuer the right to redeem the Notes prior to maturity. Also, upon the occurrence of any event giving the Issuer the right to redeem the Notes prior to maturity, the Issuer or any other member of UBS, as applicable, may, instead of redeeming the Notes, choose to redeem other outstanding capital instruments if the terms of those capital instruments so provide, leaving the holders of the Notes subject to the risk of a Contingent Write-down while other investors are redeemed at par or other advantageous prices.

Any redemption of the Notes on the First Call Date or on any Interest Payment Date thereafter, or following a Tax Event at any time will be subject to the consent of the FINMA, which pursuant to applicable Swiss regulations requires, among other things, that at the time of the redemption UBS Group 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 the Issuer, the rights and claims of the Holders against the Issuer in respect of or arising under (including any damages awarded for breach of any obligation under) the Notes will, rank (A) junior to the rights and claims of all holders of Senior Obligations, (B) *pari passu* with the rights and claims of holders of Parity Obligations and (C) senior to the rights and claims of holders of Junior Obligations.

Therefore, if the Issuer were wound up, liquidated or dissolved, the Issuer's liquidator would first apply assets of the Issuer to satisfy all rights and claims of holders of Senior Obligations. If the Issuer does not have sufficient assets to settle claims of holders of Senior Obligations in full, the claims of the Holders

under the Notes will not be settled and, as a result, the Holders will lose the entire amount of their investment in the Notes. The Notes will share equally in payment with the Parity Obligations if the Issuer does not have sufficient funds to make full payments on all of them, as applicable. In such a situation, Holders could lose all or part of their investment.

Additionally, in case of resolution proceedings with respect to UBS Group AG in circumstances where UBS Group AG is subject to the resolution regime under Swiss banking laws (see "*Risk Factors — UBS Group AG may become subject to the resolution regime under Swiss banking laws and, consequently, to FINMA's broad statutory powers in the case of restructuring proceedings*" below), FINMA could convert the Notes into equity or cancel the Notes, in each case, in whole or in part. Holders should be aware that, in the case of any such conversion into equity, FINMA would follow the order of priority set out under Swiss banking laws, which means, among other things, that the Notes would have to be converted prior to the conversion of any of UBS Group AG's subordinated debt that does not qualify as regulatory capital. Furthermore, in the case of any such cancellation, FINMA may not be required to follow any order of priority, which means, among other things, that the Notes could be cancelled in whole or in part prior to the cancellation of any or all of UBS Group AG's equity capital.

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 (including any accrued and unpaid interest) irrespective of whether the Issuer has sufficient assets available to settle the claims of the Holders under the Notes or other securities subordinated to the same or greater extent than the Notes, in bankruptcy, liquidation, dissolution or winding-up proceedings or otherwise.

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

In accordance with the requirements for Additional Tier 1 instruments, and as more particularly described under Condition 10 (*Events of Default*) below, Holders have only limited enforcement remedies upon an Event of Default. These are limited, in the case of enforcing payment of sums due under the Notes, to instituting proceedings against the Issuer in accordance with Swiss insolvency laws and, in the case of any other default under the Notes, to seeking specific performance or damages in accordance with the Swiss Code of Obligations. A Holder may accelerate its Notes only upon the occurrence of a Bankruptcy Event. Furthermore, even if a Bankruptcy Event occurs, if a Contingent Write-down occurs before the Bankruptcy Event, the Holder would have no claim which he could submit in the bankruptcy proceeding.

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

There is no restriction on the amount or type of further securities or indebtedness that the Issuer may issue, incur or guarantee, as the case may be, that rank senior to, or *pari passu* with, the Notes offered hereby. The issue or guaranteeing of any such further securities or indebtedness may reduce the amount recoverable by Holders under the Notes on a liquidation or winding-up of the Issuer. In addition, the Notes do not contain any restriction on the Issuer issuing securities which may have preferential rights to the Notes or securities with similar, different or no Trigger Event or Viability Event provisions.

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

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

***The Notes have a Minimum Denomination.***

As the Notes may only be held and transferred in a minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of USD 200,000 (or its equivalent) that are not integral multiples of USD 1,000 (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 USD 200,000.

### ***Credit Rating.***

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

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

Upon issuance, the Notes will be rated by nationally recognised statistical ratings organisations and may in the future be rated by additional rating agencies. Any rating initially assigned to the Notes may not be consistent with the expected ratings set out elsewhere in this Listing Prospectus or may be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, circumstances relating to the basis of the rating, such as adverse changes to the Issuer's business, so warrant. Any lowering or withdrawal of a rating by a rating agency could reduce the liquidity or market value of the Notes.

***UBS has announced its intention to make certain structural changes in light of regulatory trends and requirements and the Terms and Conditions do not contain any restrictions on the Issuer's or UBS's ability to restructure its business.***

UBS has announced that it intends to transfer by mid-2015 its Retail & Corporate business division and the Swiss-booked business within the Wealth Management business division to UBS Switzerland AG, a banking subsidiary of UBS AG in Switzerland.

In the UK, UBS has started to implement a revised business and operating model for UBS Limited, which will enable UBS Limited to bear and retain a larger proportion of the risk and reward in its business activities. UBS has increased the capitalization of UBS Limited accordingly.

To comply with new rules for foreign banks in the US under the Dodd-Frank Wall Street Reform and Consumer Protection Act, UBS will designate an intermediate holding company by 1 July 2016 that will own all of its US operations other than US branches of UBS AG.

UBS may consider further changes to its legal structure in response to regulatory requirements, including to further improve the resolvability of UBS, to respond to capital requirements (as well as to seek any reduction in capital requirements UBS may be entitled to) and to meet any other regulatory requirements regarding its legal structure. Such changes may include the transfer of operating subsidiaries of UBS AG to become direct subsidiaries of UBS Group AG, the transfer of shared service and support functions to service companies, and adjustments to the booking entity or location of products and services. These structural changes are being discussed on an ongoing basis with FINMA and other regulatory authorities and remain subject to a number of uncertainties that may affect their feasibility, scope or timing.

The Terms and Conditions contain no restrictions on change of control events or structural changes, such as consolidations or mergers or demergers of the Issuer or the sale, assignment, spin-off, contribution, distribution, transfer or other disposal of all or any portion of the Issuer's or its subsidiaries' properties or assets in connection with the announced changes to its legal structure or otherwise and no Event of Default, requirement to repurchase the Notes or other event will be triggered under the Terms and Conditions as a result of such changes. There can be no assurance that such changes, should they occur, would not adversely affect the credit rating of the Issuer and/or increase the likelihood of the occurrence of a Trigger Event or a Viability Event and, consequently, a Contingent Write-down. Such changes, should they occur, may adversely affect the Issuer's ability to pay interest on the Notes and/or lead to circumstances in which the Issuer elects to cancel such interest.

***As UBS Group AG is a holding company, its ability to meet its financial obligations is dependent upon funding, dividend and other distributions received from its subsidiaries, which may be subject to restrictions.***

UBS Group AG is a holding company and its subsidiaries conduct the operations of UBS as financial services firm, creditors of UBS Group AG are structurally subordinated to those of its subsidiaries. UBS Group AG currently has no significant assets other than its stake in UBS AG. UBS Group AG's ability to meet its financial obligations in the future will depend on the level of funding, dividends and other distributions, if any, received from its operating subsidiaries, including UBS AG and its subsidiaries and

any new subsidiaries established by UBS Group AG in the future. UBS Group AG's subsidiaries are separate and distinct legal entities, and their ability to provide UBS Group AG with funds for UBS Group AG's payment obligations, whether by dividends, distributions, loans or other payments, including but not limited to payments in connection with regulatory capital instruments issued by UBS Group AG's subsidiaries to UBS Group AG, may be restricted as a result of several factors, including restrictions in financing agreements and the requirements of applicable law and regulatory and fiscal or other restrictions. In particular, UBS Group AG's subsidiaries, including UBS AG and any new bank subsidiaries established by UBS Group AG or UBS AG, may be subject to laws that restrict dividend payments, authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to UBS Group AG, or limit or prohibit transactions with affiliates. Restrictions and regulatory actions of this kind could impede access to funds that UBS Group AG may need to meet its financial obligations. Moreover, any distribution of earnings to UBS Group AG from its subsidiaries, or advances or other distributions of funds by these subsidiaries to UBS Group AG, even if not restricted or limited as mentioned above, are contingent upon the subsidiaries' earnings, as well as approvals by relevant regulators and are subject to various business considerations.

***Payments on or with respect to the Notes may be subject to US withholding under FATCA.***

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

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

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

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

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

There is a grandfathering rule that generally exempts payments made with respect to obligations that are classified as indebtedness for US federal income purposes that are issued before the date that is six months after the publication of regulations defining the term foreign passthru payment. However, the terms of the Notes make it uncertain that they will be classified as indebtedness for these purposes.

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

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

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, EU Member States are required to provide to the tax authorities of another EU Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other EU Member State or to certain limited types of entities established in that other EU Member State. However, for a transitional period, Austria may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. 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 and territories including Switzerland have adopted similar measures to the EU Savings Directive (a withholding system in the case of Switzerland) with the option of the individual to have the paying agent and/or Switzerland provide to the tax authorities of the EU Member State the details of the interest payments in lieu of the withholding.

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

The Council of the European Union formally adopted a Council Directive amending the EU Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the EU Savings Directive to payments made to, or collected for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

Investors who are in any doubt as to their position should consult their professional advisers.

### **Risks relating to the Market Generally**

#### ***There is no active trading market for the Notes.***

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and UBS. This is particularly the case for the Notes as they are especially sensitive to interest rate, currency and market risks, are designed for specific objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Notes generally would have a more limited secondary market and more price volatility than conventional debt securities.

Although application has been made to the SIX Swiss Exchange for the Notes to be admitted to trading, there is no assurance as to the development or liquidity of any trading market for the Notes.

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

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

The Issuer will, in the circumstances provided herein, pay principal and interest on the Notes in US 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 US Dollars. These include the risk that exchange rates may significantly change (including changes due to

devaluation of the US Dollars 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 the US 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, investors may receive less interest or principal than expected, or no interest or principal.

***Legal investment considerations may restrict certain investments.***

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

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

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

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

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

Also, any change in the National Regulations that would cause the Notes to cease to qualify as Additional Tier 1 Capital and/or Buffer Capital 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 National Regulations that permits any Relevant Swiss Issuer to issue or guarantee (including by providing a guarantee, credit support agreement or similar undertaking), or has issued or guaranteed (including by providing a guarantee, credit support agreement or similar undertaking), a capital instrument that (i) qualifies as Additional Tier 1 Capital and Buffer Capital, and (ii) has terms and conditions that (A) include a write-down feature, and (B) contain one or more provisions that are, in the reasonable opinion of UBS Group AG, 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 Additional Tier 1 Capital and/or Buffer Capital immediately prior to such change in National Regulations, would result in an Alignment Event. Upon the occurrence of a Regulatory Event or a Tax Event, the Issuer would have the option, subject to certain conditions, to redeem the Notes (in whole, but not in part). In addition, upon the occurrence of a Regulatory Event, a Tax Event or an Alignment Event, the Issuer would also have the option to, without the consent of the Holders unless so required by mandatory provisions of Swiss law, either substitute all, but not some only, of the Notes for,



or amend the terms and conditions of the Notes so that they remain or become, Compliant Securities, as described in Condition 11 (*Substitution and Amendment*).

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 17 December 2014, the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent in Switzerland (which may be interpreted to include the Issuer) to deduct Swiss withholding tax at a rate of 35 per cent. on any payment of interest in respect of a debt security, such as the Notes, to an individual resident in Switzerland or to a person resident outside of Switzerland unless certain procedures are complied with to establish that the owner of the debt security is not an individual resident in Switzerland. It is not clear at this time how such procedures will be implemented and such procedures will not be available to certain investment entities. An owner of a Note that is not resident in Switzerland may be able to claim a full or partial refund of the Swiss federal withholding tax by virtue of provisions of an applicable double taxation treaty, if any, between Switzerland and the country of residence of such owner. The double taxation treaty between Switzerland and the United States provides an exemption from Swiss withholding tax for eligible US persons.

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

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

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

***UBS Group AG may become subject to the resolution regime under Swiss banking laws and, consequently, to FINMA's broad statutory powers in the case of restructuring proceedings.***

As of the date hereof, the resolution regime under the Swiss banking laws applies only to duly licensed banks in Switzerland such as UBS Group AG's subsidiary UBS AG (which currently is UBS Group AG's primary asset), and not to a parent company of a financial group such as UBS Group AG. However, a consultation process was recently launched regarding a proposed amendment to the Swiss banking laws that would extend the scope of the Swiss bank resolution regime thereunder to, among others, Swiss parent companies of financial groups. It is not possible to predict whether or when any such amendment will be enacted, what final form such amendment would take and what effect it could have on Holders or UBS Group AG generally. However, if the Swiss banking laws were amended so that the same resolution regime that currently applies to UBS AG were to apply to UBS Group AG, FINMA would be able to exercise its resolution powers thereunder to, among other things, convert the Notes into equity or cancel the Notes in whole or in part in restructuring proceedings. Refer to "*Risk Factor – Regulatory and legislative changes may adversely affect UBS's business and ability to execute its strategic plans*" below, and "*Regulation and supervision in Switzerland*" in the UBS AG Annual Report 2013 for a description of the resolution regime under Swiss banking laws as it applies to UBS AG.

## **Risks relating to UBS**

### ***Impact of recent Swiss National Bank actions***

On 15 January 2015, the Swiss National Bank ("SNB") discontinued the minimum targeted exchange rate for the Swiss franc versus the euro, which had been in place since September 2011. At the same time, the SNB lowered the interest rate on deposit account balances at the SNB that exceed a given exemption threshold by 50 basis points to negative 0.75 per cent. It also moved the target range for the three-month Swiss franc Libor to between negative 1.25 per cent. and 0.25 per cent. (previously negative 0.75 per cent. to positive 0.25 per cent.). These decisions resulted in a considerable strengthening of the Swiss franc against the euro, US dollar, British pound, Japanese yen and several other currencies, as well as a

reduction in Swiss franc interest rates. As of 31 January 2015, the Swiss franc exchange rate was 0.92 to the US dollar, 1.04 to the euro, 1.38 to the British pound and 0.78 to 100 Japanese yen. Volatility levels in foreign currency exchange and interest rates also increased. A significant portion of the equity of UBS's foreign operations is denominated in US dollars, euros, British pounds and other foreign currencies. The appreciation of the Swiss franc would have led to an estimated decline in total equity of approximately CHF 2.0 billion or 4 per cent. when applying currency translation rates as of 31 January 2015 to the reported balances as of 31 December 2014. Similarly, a significant portion of UBS's Basel III risk-weighted assets ("RWA") are denominated in US dollars, euros, British pounds and other foreign currencies. Group Treasury is mandated with the task of minimizing adverse effects from changes in currency rates on UBS's capital ratios. The Group Asset and Liability Management Committee, a committee of the UBS Group Executive Board, can adjust the currency mix in capital, within limits set by the Board of Directors, to balance the effect of foreign exchange movements on the fully applied CET1 capital and total capital ratio. As a result, the proportion of RWA denominated in foreign currencies outweighs the capital in these currencies, and the significant appreciation of the Swiss franc against these currencies benefited UBS's Basel III capital ratios. On a fully applied basis for Swiss systemically relevant banks ("SRB") UBS would have experienced the following approximate declines in its capital balances when applying currency translation rates as of 31 January 2015 to the reported balances as of 31 December 2014: CHF 0.9 billion or 3 per cent. in fully applied CET1 capital, CHF 1.8 billion or 4 per cent. in fully applied total capital, CHF 9.2 billion or 4 per cent. in fully applied RWA and CHF 71.4 billion or 7 per cent. in the fully applied leverage ratio denominator. Consequently, UBS estimates that its fully applied Swiss SRB CET1 capital ratio would have increased by approximately 20 basis points and the fully applied leverage ratio would have improved by approximately 10 basis points. In aggregate, UBS did not experience negative revenues in its trading businesses in connection with the SNB announcement. However, the portion of UBS's operating income denominated in non-Swiss franc currencies is greater than the portion of operating expenses denominated in non-Swiss franc currencies. Therefore, appreciation of the Swiss franc against other currencies generally has an adverse effect on UBS's earnings in the absence of any mitigating actions. In addition to the estimated effects from changes in foreign currency exchange rates, UBS's equity and capital are affected by changes in interest rates. In particular, the calculation of UBS's net defined benefit assets and liabilities is sensitive to the discount rate applied. Specifically, the reduction in applicable discount rates during January would have reduced UBS's equity and fully applied Swiss SRB CET1 capital by more than CHF 1 billion. Also, the persistently low interest rate environment would continue to have an adverse effect on UBS's replication portfolios, and its net interest income would further decrease. Furthermore, the stronger Swiss franc may have a negative impact on the Swiss economy, which, given its reliance on exports, could impact some of the counterparties within UBS's domestic lending portfolio and lead to an increase in the level of credit loss expenses in future periods.

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

- significantly higher regulatory capital requirements;
- changes in the definition and calculation of regulatory capital;
- changes in the calculation of RWA, including potential requirements to calculate or disclose RWA using less risk sensitive "standardised approaches" rather than the internal models approach currently used by the UBS Group and mandated by FINMA under the Basel III framework;
- the introduction of a more demanding leverage ratio;
- new or significantly enhanced liquidity requirements;

- requirements to maintain liquidity and capital in jurisdictions in which activities are conducted and booked;
- limitations on principal trading and other activities;
- new licensing, registration and compliance regimes;
- limitations on risk concentrations and maximum levels of risk;
- taxes and government levies that would effectively limit balance sheet growth or reduce the profitability of trading and other activities;
- cross-border market access restrictions;
- a variety of measures constraining, taxing or imposing additional requirements relating to compensation;
- adoption of new liquidation regimes intended to prioritize the preservation of systemically significant functions;
- requirements to maintain loss-absorbing capital or debt instruments subject to write down as part of recovery measures or a resolution of the UBS Group or a UBS Group company, including requirements for subsidiaries to maintain such instruments;
- requirements to adopt structural and other changes designed to reduce systemic risk and to make major financial institutions easier to manage, restructure, disassemble or liquidate, including ring-fencing certain activities and operations within separate legal entities; and
- requirements to adopt risk and other governance structures at a local jurisdiction level.

Many of these measures have been adopted and their implementation has had a material effect on the UBS Group's business. Others will be implemented over the next several years; some are subject to legislative action or to further rulemaking by regulatory authorities before final implementation. As a result, there remains a high level of uncertainty regarding a number of the measures referred to above, including whether (or the form in which) they will be adopted, the timing and content of implementing regulations and interpretations and / or the dates of their effectiveness. The implementation of such measures and further, more restrictive changes may materially affect the UBS Group's business and ability to execute its strategic plans.

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

### ***Regulatory and legislative changes in Switzerland.***

Swiss regulatory changes have generally proceeded more quickly in capital, liquidity and other areas than those in other major jurisdictions, and FINMA, the SNB and the Swiss Federal Council are implementing requirements that are significantly more onerous and restrictive for major Swiss banks, such as the UBS Group, than those adopted or proposed by regulatory authorities in other major global financial centres. In December 2014, a group of senior experts representing the private sector, authorities and academia (the "**Brunetti group**") appointed by the Swiss Federal Council published recommendations on, among other things, safeguarding systemic stability and too big to fail ("**TBTF**"), including with respect to the calculation of RWA, higher leverage ratio and withdrawing regulatory waivers at the level of the entity holding systemically relevant functions. The Brunetti group's recommendations will serve as the basis for the Swiss Federal Council's review report on the Swiss TBTF law to be presented to the Swiss parliament in early 2015 that may result in further changes to the Swiss TBTF and regulatory regime.

*Capital regulation:* A revised banking ordinance and capital adequacy ordinance implementing the Basel III capital standards and the Swiss TBTF law became effective on 1 January 2013. As a systemically relevant Swiss bank, the UBS Group is subject to base capital requirements, as well as a "progressive buffer" that scales with the UBS Group's total exposure (a metric that is based on the UBS Group's balance sheet size) and market share in Switzerland. In addition, the Swiss governmental authorities have the authority to impose an additional countercyclical buffer capital requirement of up to 2.5 per cent. of RWA. This authority has been exercised to impose an additional capital charge of 2 per cent. in respect of RWA arising from Swiss residential mortgage loans. FINMA has further required banks using the internal ratings based approach to use a bank specific multiplier when calculating RWA for owner-occupied Swiss residential mortgages, which is being phased in through 2019. FINMA has notified UBS that the RWA increase should be extended to Swiss income producing and commercial real estate from the first quarter of 2015.

In addition, the UBS Group and FINMA have mutually agreed to an incremental operational capital requirement to be held against litigation, regulatory and similar matters and other contingent liabilities, which added CHF 17.5 billion to the UBS Group's RWA at 31 December 2014. There can be no assurance that the UBS Group will not in the future be subject to increases in capital requirements either from the imposition of additional requirements or changes in the calculation of RWA or other components of the existing minimum capital requirement.

The Basel Committee on Banking Supervision ("**BCBS**") has issued far-reaching proposals on revising the standardized approach to credit risk, e.g. by relying less on external credit ratings, reducing the scope of national discretion and strengthening the link between the standardized and the Internal Ratings Based ("**IRB**") approach, on mandatory disclosure of RWA based on the standardized approach and on the design of a capital floor framework. If adopted by the BCBS and implemented into Swiss regulation, implementation of disclosure or capital calculations based on the standardized approach would result in significant implementation costs to UBS. In addition, a capital standard or floor based on the standardized approach would likely be less risk sensitive and would likely result in higher capital requirements.

*Liquidity and funding:* The UBS Group is required to maintain a Liquidity Coverage Ratio ("**LCR**") of high-quality liquid assets to estimated stressed short-term funding outflows and will be required to maintain a Net Stable Funding Ratio ("**NSFR**"), both of which are intended to ensure that the UBS Group is not overly reliant on short-term funding and that it has sufficient long-term funding for illiquid assets.

UBS currently calculates its LCR under supervisory guidance from FINMA. FINMA has issued a circular, which requires UBS to calculate its leverage ratio using new rules that align the leverage ratio denominator with the rules issued by the Bank of International Settlements ("**BIS**"). The UBS Group will make use of a one-year transition period under which the prior definition may still be used, but UBS must disclose both measures of LCR.

Neither the international nor Swiss standards for the calculation of NSFR have been fully implemented.

These requirements, together with liquidity requirements imposed by other jurisdictions in which the UBS Group operates, require the UBS Group to maintain substantially higher levels of overall liquidity. Increased capital requirements and higher liquidity requirements make certain lines of business less attractive and may reduce the UBS Group's overall ability to generate profits. The LCR and NSFR

calculations make assumptions about the relative likelihood and amount of outflows of funding and available sources of additional funding in a market or firm-specific stress situation. There can be no assurance that in an actual stress situation the UBS Group's funding outflows would not exceed the assumed amounts.

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

Swiss TBTF requirements require systemically important banks, including the UBS Group, to put in place viable emergency plans to preserve the operation of systemically important functions despite a failure of the institution, to the extent that such activities are not sufficiently separated in advance. The Swiss TBTF law provides for the possibility of a limited reduction of capital requirements for systemically important institutions that adopt measures to reduce resolvability risk beyond what is legally required. Such actions would likely include an alteration of the legal structure of a bank group in a manner that would insulate parts of the UBS Group to exposure from risks arising from other parts of the UBS Group thereby making it easier to dispose of certain parts of the UBS Group in a recovery scenario, to liquidate or dispose of certain parts of the UBS Group in a resolution scenario or to execute a debt bail-in. However, there is no certainty with respect to timing or size of a potential capital rebate.

In addition to the exchange offer, the UBS Group has already announced a series of measures seeking to improve the resolvability of the UBS Group:

- In December 2014, UBS Group AG completed an exchange offer for the shares of UBS AG and as at the date of this Listing Prospectus holds approximately 97 per cent. of the outstanding shares of UBS AG and is the holding company for the UBS Group.
- The UBS Group plans to establish a new banking subsidiary of UBS in Switzerland and has filed a formal application for a banking license in the third quarter of 2014. The subsidiary, which will be named UBS Switzerland AG, will include the UBS Group's Retail & Corporate business division and the Swiss-booked business within the Wealth Management business division. The UBS Group continues to expect to implement this change in a phased approach starting in mid-2015.
- In the United Kingdom, and in consultation with the UK and Swiss regulators, the UBS Group implemented the first stages of a revised business and operating model for UBS Limited in the second quarter of 2014 with a follow-up phase scheduled for implementation during the second quarter of 2015. This change entails UBS Limited bearing and retaining a greater degree of the risk and reward of its business activities. The UBS Group has increased the capitalisation of UBS Limited accordingly.
- In the United States, the UBS Group will implement new rules for foreign banks promulgated by the Federal Reserve Board under Sections 165 and 166 of Dodd-Frank that will require an intermediate holding company to own all of its operations other than US branches of UBS by 1 July 2016. As a result, the UBS Group will designate an intermediate holding company to hold all US subsidiaries of UBS.

The dialogue with regulators will continue and the changes remain subject to some uncertainties that may affect their feasibility, scope or timing. The UBS Group may consider further changes to the legal structure of the UBS Group in response to regulatory requirements in Switzerland or in other countries in which it operates, including to improve the resolvability of the UBS Group, to respond to Swiss and other capital requirements and to respond to regulatory required changes in legal structure. Such changes may include the transfer of operating subsidiaries of UBS AG to become direct subsidiaries of UBS Group

AG, the transfer of shared service and support functions to a service company and adjustments to booking entity or location of services. Structural changes are being discussed on an ongoing basis with FINMA and other regulatory authorities and remain subject to a number of uncertainties that may affect feasibility, scope and timing. Movement of businesses to a new subsidiary ("**subsidiarisation**") will require significant time and resources to implement. Subsidiarisation in Switzerland and elsewhere may create operational, capital, funding and tax inefficiencies and increase the UBS Group's and counterparties' credit risk. Refer to "Regulatory and legislative changes outside Switzerland" for a description of other regulatory and legislative developments that may affect these decisions and further discussion of these risks. There can be no assurance that the execution of the changes UBS has planned or may implement in the future will result in a material reduction in the progressive capital buffer as permitted under the Swiss TBTF law or that these changes will satisfy existing or future requirements for resolvability or mandatory structural change in banking organizations.

*Market regulation:* The Swiss government has proposed legislation on market infrastructure, OTC derivatives regulation and trading obligations. The Swiss government has also held a consultation on proposed regulations that would affect the terms of client relationships, including providing clients of financial intermediaries and consumer groups a right of collective action against a financial intermediary. These laws may, if enacted, have a material impact on the market infrastructure that the UBS Group uses, available platforms, collateral management and the way the UBS Group interacts with clients. In addition, these initiatives may cause the UBS Group to incur material implementation costs.

#### ***Regulatory and legislative changes outside Switzerland.***

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

*Banking structure and activity limitations:* Some of these regulatory and legislative changes may subject UBS to requirements to move activities from UBS AG branches into subsidiaries. Such "subsidiarisation" can create operational, capital and tax inefficiencies, increase UBS's aggregate credit exposure to counterparties as they transact with multiple UBS AG affiliates, expose UBS's businesses to higher local capital requirements, and potentially give rise to client and counterparty concerns about the credit quality of individual subsidiaries. Such changes could also negatively impact UBS's funding model and severely limit its booking flexibility.

For example, UBS has significant operations in the UK and currently uses UBS's London branch as a global booking center for many types of products. UBS has been required by the UK Prudential Regulatory Authority and by FINMA to increase very substantially the capitalization of its UK bank subsidiary, UBS Limited, and may be required to change its booking practices to reduce or even eliminate its utilisation of UBS's London branch as a global booking center for the ongoing business of the Investment Bank. In addition, the UK Independent Commission on Banking has recommended structural and non-structural reforms of the banking sector, most of which have been endorsed by the UK government and implemented in the Financial Services (Banking Reform) Act. Key measures proposed include the ring-fencing of retail banking activities in the UK (which UBS does not expect to impact UBS directly), additional common equity tier 1 capital requirements of up to 3 per cent. of RWA for retail banks, and the issuance by UK banks of debt subject to "bail-in" provisions. Furthermore, the European Commission published its proposal for a regulation on bank structural reform in January 2014. The objectives of the regulation centre on the reduction of the systemic impact of banks and addressing the too-big-to-fail problem. Proposals include the separation of retail banking activities from wholesale banking activities together with a ban on proprietary trading and lending to hedge funds and private equity. Significant divergence in views on the scope and application of these proposals persists at the EU level with full agreement not likely to be reached before early 2016. Issues that remain the subject of debate include how prescriptive to be as to separation requirements and which trading activities entities can and cannot engage in. The applicability and implications of such changes to branches and subsidiaries of foreign banks are also not yet entirely clear, but they could have a material effect on the Group's businesses located or booked in the UK and other EU locations.

In February 2014, the Federal Reserve Board issued final rules for foreign banking organisations ("**FBO**") operating in the US (under section 165 of the Dodd-Frank Act) that include the following: (i) a requirement for FBO with more than USD 50 billion of US non-branch assets to establish an intermediate holding company ("**IHC**") to hold all US subsidiary operations, (ii) risk-based capital and leverage requirements for the IHC, (iii) liquidity requirements, including a 30-day onshore liquidity requirement

for the IHC, (iv) risk management requirements including the establishment of a risk committee and the appointment of a US chief risk officer, (v) stress test and capital planning requirements and (vi) a debt-to-equity limit for institutions that pose "a grave threat" to US financial stability. Requirements differ based on the overall size of the foreign banking organization and the amount of its US-based assets. UBS expects that it will be subject to the most stringent requirements based on its current operations. UBS will have until 1 July 2016 to establish an IHC and meet many of the new requirements. UBS must submit an implementation plan by 1 January 2015 and the IHC will not need to comply with the US leverage ratio until 1 January 2018.

US regulators published final regulations implementing the Volcker Rule in December 2013 and generally extended until 2015 the time to conform to this rule and the related regulations. In general, the Volcker Rule prohibits any banking entity from engaging in proprietary trading and from owning interests in hedge funds and other private fund vehicles. The Volcker Rule also broadly limits investments and other transactional activities between a bank and funds that the bank has sponsored or with which the bank has certain other relationships. The Volcker Rule permits UBS and other non-US banking entities to engage in certain activities that would otherwise be prohibited to the extent that they are conducted solely outside the US and certain other conditions are met. One impact will be the need to establish an extensive global compliance framework designed to ensure compliance with the Volcker Rule and the terms of the available exemptions. Moreover, the Volcker Rule could have an impact on the way in which UBS organises and conducts certain business lines. UBS continues to evaluate the final rule and its impact on its activities. The Volcker Rule could have a substantial impact on market liquidity and the economics of market-making activities.

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

These mandatory clearing requirements are expected to be supplemented by mandatory requirements to trade such clearable instruments on regulated venues under the forthcoming Markets in Financial Instruments Directive ("MiFID II") and the Markets in Financial Instruments Regulation ("MiFIR"). These two pieces of legislation, together with the more detailed implementing measures, due to take effect in early 2017 have the potential to bring about a major change to many aspects of the way financial services are provided in and into the EEA. All areas of the provision of financial services are affected across all client types. Some notable areas covered include increased pre- and post-trade transparency, particularly into the area of fixed income products; further restrictions on the provision of inducements; the introduction of a new discretionary trading venue with the aim of regulating broker crossing networks; trading controls for algorithmic trading activities; increased conduct of business requirements and strengthened supervisory powers which include powers for authorities to ban products or services in particular situations. The precise impact and approach of UBS to this legislation will not be known until the details of the implementing legislation and national implementation (where applicable) are established and analysed. However, it is expected that this legislation will necessitate changes in business models and procedures in a number of areas. This will likely entail the expenditure of significant time and resources on an on-going basis and, in common with some other legislative proposals in this area, may also reduce the revenue potential of some of those business models for UBS and the industry more generally.

UBS AG was registered as a swap dealer with the Commodity Futures Trading Commission ("CFTC") in the US at the end of 2012, enabling the continuation of swaps business with US persons. The UBS Group also expects that UBS AG will be required to register as a securities-based swap dealer with the US Securities and Exchange Commission. Regulations issued by the CFTC impose substantial new requirements on registered swap dealers for clearing, trade execution, transaction reporting, recordkeeping, risk management and business conduct. Certain of the CFTC's regulations, including those relating to swap data reporting, recordkeeping, compliance and supervision, apply to UBS AG globally.

Application of these requirements to UBS AG's swaps business with non-US persons continues to present a substantial implementation burden, will likely duplicate or conflict with legal requirements applicable to UBS outside of the US, including in Switzerland and may place UBS at a competitive disadvantage to firms that are not CFTC-registered swap dealers.

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

***Resolution and recovery; bail-in.***

UBS is currently required to produce recovery and resolution plans in the US, UK, Switzerland and Germany and is likely to face similar requirements for its operations in other jurisdictions, including its operations in the EU as a whole, as part of the proposed EU Bank Recovery and Resolution Directive. Resolution plans may increase the pressure on UBS to make structural changes, such as the creation of separate legal entities, if the resolution plan in any jurisdiction identifies impediments that are not acceptable to the relevant regulators. Such structural changes may negatively impact UBS's ability to benefit from synergies between business units, and if they include the creation of separate legal entities, may have the other negative consequences mentioned above with respect to "subsidiarisation" more generally.

The Financial Stability Board ("FSB") and the BCBS have issued proposed standards on Total Loss-Absorbing Capacity ("TLAC") that aims to build up adequate loss-absorbing capacity for global systemically important banks to ensure that an orderly wind-down is possible. The FSB proposes that a minimum Pillar 1 TLAC requirement be set within the range of 16 per cent. to 20 per cent. of RWA and at least twice the Basel III tier 1 leverage ratio requirement. In addition, a number of jurisdictions, including Switzerland, the US, the UK and the EU, have implemented or are considering implementing changes that would allow resolution authorities to write down or convert into equity unsecured debt to effectuate a so-called "bail-in." The scope of bail-in authority and the legal mechanisms that would be utilised for the purpose are subject to a great deal of development and interpretation. Regulatory requirements to maintain minimum TLAC, including potential requirements to maintain TLAC at subsidiaries, as well as the power of resolution authorities to bail-in TLAC and other debt obligations and uncertainty as to how such powers will be exercised, may increase the total amount and cost of funding for the UBS Group.

***Possible consequences of regulatory and legislative developments.***

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. The developments have been, and are likely to continue to be, costly to implement and could also have a negative impact on UBS's legal structure or business model, potentially generating capital inefficiencies and resulting in an impact on UBS's profitability. Finally, the uncertainty related to or the implementation of legislative and regulatory changes may have a negative impact on UBS's relationships with clients and its success in attracting client business.

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

UBS's capital position, as measured by the fully applied common equity tier 1 and total capital ratios under Basel III requirements, is determined by: (i) RWA (credit, non-counterparty related, market and operational risk positions, measured and risk-weighted according to regulatory criteria); and (ii) eligible capital. Both RWA and eligible capital may fluctuate based on a number of factors. RWA are driven by



UBS's business activities and by changes in the risk profile of its exposures, as well as regulatory requirements. For instance, substantial market volatility, a widening of credit spreads (the major driver of UBS's value-at-risk), adverse currency movements, increased counterparty risk, a deterioration in the economic environment, or increased operational risk could result in a rise in RWA. Eligible capital would be reduced if UBS experiences net losses or losses through other comprehensive income, as determined for the purpose of the regulatory capital calculation, which may also render it more difficult or more costly for UBS to raise new capital. In addition, eligible capital can be reduced for a number of other reasons, including certain reductions in the ratings of securitisation exposures, acquisitions and divestments changing the level of goodwill, adverse currency movements affecting the value of equity, prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions, and changes in the value of certain pension fund assets and liabilities recognised in other comprehensive income. See *"Risks relating to UBS – Impact of Recent Swiss National Bank Actions."* Any such increase in RWA or reduction in eligible capital could materially reduce UBS's capital ratios.

Risks captured in the operational risk component of RWA have become increasingly significant as a component of UBS's overall RWA as a result of significant reductions in market and credit risk RWA, as UBS executes its strategy, and increased operational risk charges arising from operational risk events (including charges arising from litigation, regulatory and similar matters). UBS has agreed with FINMA on a supplemental analysis that is used to calculate an incremental operational risk capital charge to be held for litigation, regulatory and similar matters and other contingent liabilities. The incremental RWA calculated based on this supplemental analysis as of 31 December 2014 was CHF 17.5 billion. Future developments in and the ultimate elimination of the incremental RWA attributable to the supplemental analysis will depend on provisions charged to earnings for litigation, regulatory and similar matters and other contingent liabilities and on developments in these matters. There can be no assurance that UBS will be successful in addressing these matters and reducing or eliminating the incremental operational risk component of RWA.

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

In addition to the risk-based capital requirements, UBS is subject to a minimum leverage ratio requirement for Swiss systemically relevant banks. The leverage ratio operates separately from the risk-based capital requirements, and, accordingly, under certain circumstances could constrain UBS's business activities even if UBS is able to satisfy other risk-based capital requirements. UBS has achieved substantial reductions in its balance sheet size and anticipates further reductions as it winds down its Non-core and Legacy Portfolio positions. These reductions have improved UBS's leverage ratio and contributed to its ability to comply with the more stringent leverage ratio requirements currently scheduled to become effective. There is also a risk that the minimum leverage ratio requirement will be increased significantly beyond the levels currently scheduled to come into effect, which would make it more difficult for UBS to satisfy the requirements without adversely affecting certain of its businesses. The leverage ratio is a simple balance sheet measure and therefore limits balance sheet intensive activities, such as lending, more than activities that are less balance sheet intensive.

Changes in international or Swiss requirements for risk-based capital, leverage ratios, LCR or NSFR, including changes in minimum levels, method of calculation or supervisory add-ons could have a material adverse effect on the UBS Group's capital position and its business. Any such changes that are implemented only in Switzerland or more quickly in Switzerland may have an adverse effect on the UBS Groups' competitive position compared with institutions regulated under different regimes.

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

In October 2012, UBS announced a significant acceleration in the implementation of its strategy. The strategy included transforming UBS's Investment Bank to focus it on its traditional strengths, very significantly reducing Basel III RWA and further strengthening UBS's capital position, and significantly reducing costs and improving efficiency across UBS. UBS has substantially completed the transformation of its business, but there remain elements of the strategy that are not complete. There continues to be a risk that UBS will not be successful in completing the execution of its plans, that its plans may be delayed, that market events may adversely affect the implementation of the plan or that the effects of its plans may differ from those intended.

Although UBS has substantially reduced the RWA and balance sheet usage associated with its Non-core and Legacy Portfolio positions, there can be no assurance that UBS will continue to be able to exit them as quickly as its plans suggest or that it will not incur significant losses in doing so. The continued illiquidity and complexity of many of the legacy risk positions in particular could make it difficult to sell or otherwise exit these positions and reduce the RWA and the balance sheet usage associated with these exposures. As the size of the Non-core and Legacy Portfolio decreases, achieving a complete exit of particular classes of transactions will be necessary to achieve the reductions of RWA, balance sheet and costs associated with the positions. At the same time, UBS's ability to meet its future capital targets and requirements depends in part on its ability to reduce those RWA and balance sheet usage without incurring unacceptable losses.

As part of its strategy, UBS has underway a program to achieve significant incremental cost reductions. The success of UBS's strategy and its ability to reach certain of the targets it has announced depends heavily on the effectiveness of the cost reduction and efficiency measures UBS is able to carry out. As is often the case with major cost reduction and efficiency programs, UBS's plans involve significant risks. Included among these are the risks that restructuring costs may be higher and may be recognised sooner than UBS has projected, that UBS may not be able to identify feasible cost reduction opportunities that are also consistent with its business goals and that cost reductions may be realised later or may be less than UBS anticipates. In addition, when UBS implements its cost reduction and efficiency programs it may experience unintended consequences such as the loss or degradation of capabilities that UBS needs in order to maintain its competitive position and achieve its targeted returns.

UBS is exposed to possible outflows of client assets in its asset-gathering businesses and to changes affecting the profitability of its Wealth Management business division, and UBS may not be successful in implementing the business changes needed to address them. 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 advisors, difficulty in recruiting qualified client advisors and tax, legal and regulatory developments concerning UBS's cross-border private banking business.

Many of these factors have been successfully addressed. UBS's Wealth Management and Wealth Management Americas business divisions recorded substantial net new money inflows in 2013 and 2014. Long-term changes affecting the cross-border private banking business model will, however, continue to affect client flows in the Wealth Management business division for an extended period of time. One of the important drivers behind the longer-term reduction in the amount of cross-border private banking assets, particularly in Europe but increasingly also in other regions, is the heightened focus of fiscal authorities on cross-border investments. Changes in local tax laws or regulations and their enforcement and the implementation of cross-border tax information exchange regimes, 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. For the last three years, UBS has experienced net withdrawals in its Swiss booking centre from clients domiciled elsewhere in Europe, in many cases related to the negotiation of tax treaties between Switzerland and other countries

The net new money inflows in recent years in UBS's Wealth Management business division have come predominantly from clients in Asia Pacific and in the ultra high net worth segment globally. Over time, inflows from these lower-margin segments and markets have been replacing outflows from higher-margin segments and markets, in particular cross-border European clients. This dynamic, combined with changes in client product preferences as a result of which low-margin products account for a larger share of UBS's revenues than in the past, put downward pressure on UBS's return on invested assets and adversely affect

the profitability of its Wealth Management business division. UBS has implemented changes in its product offerings and service improvements, and will continue its efforts to adjust to client trends and market dynamics as necessary, in an effort to overcome the effects of these changes in the business mix on its profitability, but there can be no assurance that UBS will be able to counteract those effects. In addition, UBS has made changes to its business offerings and pricing practices in line with the Swiss Supreme Court case concerning "retrocessions" (fees paid to a bank for distributing third party and intra-group investment funds and structured products) and other industry developments. These changes may adversely affect UBS's margins on these products and the current offering may be less attractive to clients than the products it replaces. There can be no assurance that UBS will be successful in its efforts to offset the adverse impact of these trends and developments.

Global Asset Management experienced net outflows of client assets in 2012 and 2013, although it had net inflows for the first three quarters of 2014 and for the full year of 2014. Further net outflows of client assets could adversely affect the results of this business division.

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

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

In December 2012, the UBS Group announced settlements totalling approximately CHF 1.4 billion in fines by and disgorgements to US, UK and Swiss authorities to resolve investigations by those authorities relating to LIBOR and other benchmark interest rates. UBS entered into a non-prosecution agreement with the US Department of Justice ("DOJ") and UBS Securities Japan Co. Ltd. also pled guilty to one count of wire fraud relating to the manipulation of certain benchmark interest rates. The settlements do not resolve investigations by other authorities or civil claims that have been or may in the future be asserted by private and governmental claimants with respect to submissions for LIBOR or other benchmark interest rates. The extent of the UBS Group's financial exposure to these remaining matters is extremely difficult to estimate and could be material.

UBS settlements with governmental authorities in connection with LIBOR and benchmark interest rates starkly illustrate the much-increased level of financial and reputational risk now associated with regulatory matters in major jurisdictions. Very large fines and disgorgement amounts were assessed against UBS, and the guilty plea of a Group subsidiary was required, in spite of the UBS Group's full cooperation with the authorities in the investigations relating to LIBOR and other benchmark interest rates, and in spite of the UBS Group's receipt of conditional leniency or conditional immunity from antitrust authorities in a number of jurisdictions, including the US and Switzerland. The UBS Group understands that, in determining the consequences to the UBS Group, the authorities considered the fact that it has in the recent past been determined to have engaged in serious misconduct in several other matters. The heightened risk level was further illustrated by the European Commission ("EC") announcement in December 2013 of fines against other financial institutions related to its Yen Interest Rate Derivatives ("YIRD") investigation. The EC stated that the UBS Group would have been subject to fines of approximately EUR 2.5 billion had the UBS Group not received full immunity for disclosing to the EC the existence of infringements relating to YIRD. Recent resolution of enforcement matters involving other financial institutions further illustrates the continued increase in the financial and other penalties, reputational risk and other consequences of regulatory matters in major jurisdictions, particularly the US, and the resulting difficulty in predicting in this environment the financial and other terms of resolutions of pending government investigations and similar proceedings. In 2014, Credit Suisse AG ("CS") and BNP Paribas ("BNPP") each pleaded guilty to criminal charges in the United States and simultaneously entered into settlement with other US agencies, including the Board of Governors of the Federal Reserve System and the New York Department of Financial Services ("DFS"). These resolutions involved the payment of substantial penalties (USD 1.8 billion in the case of CS and USD 8.8 billion in the case of BNPP), agreements with respect to future operation of their business and actions with respect to relevant personnel. In the case of BNPP, the DFS suspended for a one-year period BNPP's ability to conduct through its New York branch business activity related to the business line that

gave rise to the illegal conduct, namely US dollar clearing for specified BNPP business units. In addition, the US Department of Justice ("DOJ") announced a USD 7 billion settlement with Citigroup, including a USD 4 billion civil penalty, to resolve federal and state claims relating to Citigroup's conduct in packaging, marketing, issuing and selling residential mortgage-backed securities. Under the settlement, Citigroup is also required to provide relief to consumers who were harmed by its conduct.

UBS continues to be subject to a large number of claims, disputes, legal proceedings and government investigations, including the matters described in the notes to the financial statements included herein and expects that its ongoing business activities will continue to give rise to such matters in the future. The extent of UBS's financial exposure to these and other matters is material and could substantially exceed the level of provisions that UBS has established for litigation, regulatory and similar matters. UBS is not able to predict the financial and other terms on which some of these matters may be resolved. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. Among other things, the non-prosecution agreement UBS entered into with the DOJ in connection with LIBOR (the "NPA") may be terminated by the DOJ if the UBS Group commits any US crime or otherwise fails to comply with the NPA and the DOJ may obtain a criminal conviction of UBS in relation to the matters covered by the NPA. A guilty plea to, or conviction of, a crime (including as a result of termination of the NPA) could have material consequences for UBS. Resolution of regulatory proceedings may require UBS to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorisations and may permit financial market utilities to limit, suspend or terminate UBS's participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorisations or participations, could have material consequences for UBS.

Under the NPA, UBS has agreed, among other things, that, for two years from 18 December 2012, the UBS Group will not commit any US crime, and the UBS Group will advise the DOJ of all potentially criminal conduct by the UBS Group or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. UBS is also obligated to continue to cooperate fully with the DOJ. Failure to comply with these obligations could result in termination of the non-prosecution agreement and potential criminal prosecution in relation to the matters covered by the non-prosecution agreement. In connection with discussions of a possible resolution of investigations relating to the UBS Group's foreign exchange business with the Antitrust and Criminal Division of the DOJ, UBS and the DOJ have extended the term of the NPA by one year to 18 December 2015. As a result of this history and UBS's ongoing obligations under the non-prosecution agreement, the UBS Group's level of risk with respect to regulatory enforcement may be greater than that of some of its peer institutions.

At this point in time, UBS believes that the industry continues to operate in an environment where charges associated with litigation, regulatory and similar matters will remain elevated for the foreseeable future and UBS will continue to be exposed to a number of significant claims and regulatory matters. Ever since its losses in 2007 and 2008, the UBS Group has been subject to a very high level of regulatory scrutiny and to certain regulatory measures that constrain its strategic flexibility. While the UBS Group believes that it has remediated the deficiencies that led to the material losses during the 2007–2009 financial crisis, the unauthorised trading incident announced in September 2011, the LIBOR-related settlements of 2012 and settlements with some regulators of matters related to our foreign exchange and precious metals business, the effects of these matters on its reputation and relationships with regulatory authorities have proven to be more difficult to overcome. For example, following the unauthorised trading incident, FINMA placed restrictions (since removed) on acquisitions or business expansions in its Investment Bank unit. The UBS Group is determined to address the issues that have arisen in the above and other matters in a thorough and constructive manner. The UBS Group is in active dialogue with its regulators concerning the actions that it is taking to improve its operational risk management and control framework, but there can be no assurance that its efforts will have the effects desired.

#### *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 its activities, including those arising from process error, failed execution, unauthorised trading, fraud, system failures,

cyber-attacks, breaches of information security and failure of security and physical protection, are appropriately controlled.

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

A major focus of US governmental policy relating to financial institutions in recent years has been fighting money laundering and terrorist financing. Regulations applicable to UBS and its subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of their clients. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences, both in legal terms and in terms of UBS's reputation.

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

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

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

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

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

UBS's reputation is critical to the success of UBS's strategic plans. Damage to its reputation can have fundamental negative effects on UBS's business and prospects. Reputational damage is difficult to reverse, and improvements tend to be slow and difficult to measure. This was demonstrated in recent years, as UBS's very large losses during the financial crisis, the US cross-border matter (relating to the governmental inquiries and investigations relating to the UBS Group's cross-border private banking services to US private clients during the years 2000-2007 and the settlements entered into with US authorities in respect to this matter) and other events seriously damaged UBS's reputation. Reputational damage was an important factor in UBS's loss of clients and client assets across UBS's asset-gathering businesses, and contributed to its loss of and difficulty in attracting staff, in 2008 and 2009. These developments had short-term and also more lasting adverse effects on UBS's financial performance, and UBS recognised that restoring its reputation would be essential to maintaining its relationships with clients, investors, regulators and the general public, as well as with its employees. More recently, the unauthorised trading incident announced in September 2011 and UBS's involvement in the LIBOR matter and investigations relating to the UBS Group's foreign exchange and precious metals business have also adversely affected UBS's reputation. Any further reputational damage could have a material adverse effect on UBS's operational results and financial condition and on UBS's ability to achieve its strategic goals and financial targets.

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

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

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

- a general reduction in business activity and market volumes, as UBS has recently experienced, affects fees, commissions and margins; local or regional economic factors, such as the ongoing European sovereign debt 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 its asset- and performance-based fees;
- the ongoing low interest rate environment will further erode interest margins in several of UBS's businesses;
- reduced market liquidity or volatility limits trading and arbitrage opportunities and impedes UBS's ability to manage risks, impacting both trading income and performance-based fees;
- deteriorating market conditions could cause a decline in the value of assets that UBS owns and accounts for as investments or trading positions;
- worsening economic conditions and adverse market developments could lead to impairments and defaults on credit exposures and on trading and investment positions, and losses may be exacerbated by declines in the value of collateral UBS holds; 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 have in the past affected and could materially affect the performance of UBS's business units and of UBS as a whole, and ultimately its financial condition. As discussed below, there is also a somewhat related risk that the carrying value of goodwill of a business unit might suffer impairments and deferred tax assets levels may need to be adjusted.

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

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

Moreover, UBS holds positions related to real estate in various countries, and could suffer losses on these positions. These positions include a very substantial Swiss mortgage portfolio. Although management believes that this portfolio has been very prudently managed, UBS could nevertheless be exposed to losses if the concerns expressed by the Swiss National Bank and others about unsustainable price escalation in the Swiss real estate market come to fruition. Other macroeconomic developments, such as the implications on export markets of dramatic appreciation of the Swiss franc following recent announcements by the SNB, any return of crisis conditions within the eurozone and the potential implications of the recent decision in Switzerland to reinstate immigration quotas for EU / EEA countries, could also adversely affect the Swiss economy, UBS's business in Switzerland in general and, in particular, UBS's Swiss mortgage and corporate loan portfolios.

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 it to risk from currency fluctuations*

UBS prepares its consolidated financial statements in Swiss francs. However, a substantial portion of its assets, liabilities, invested assets, revenues and expenses are denominated in other currencies, particularly the US dollar, the euro and the British pound. Accordingly, changes in foreign exchange rates, particularly between the Swiss franc and the US dollar (US dollar revenues account for the largest portion of UBS's non-Swiss franc revenues) have an effect on UBS's reported income and expenses, and on other reported figures such as other comprehensive income, invested assets, balance sheet assets, RWA and Basel 3 CET1 capital. These effects may adversely affect the UBS Group's income, balance sheet, capital and liquidity ratios. The effects described under "Impact of Recent Swiss National Bank Actions" illustrate the potential effect of significant currency movements, particularly of the Swiss Franc.

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

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

As seen during the financial crisis of 2007-2009, UBS is not always able to prevent serious losses arising from extreme or sudden market events that are not anticipated by UBS's 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:

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

UBS also manages risk on behalf of its clients in its asset and wealth management businesses. The performance of assets UBS holds for its clients 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 performance, UBS may suffer reduced fee income and a decline in assets under management, or withdrawal of mandates.

If UBS decides to support a fund or another investment that it sponsors in its asset or wealth management businesses, it might, depending on the facts and circumstances, incur charges that could increase to material levels.

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

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

If available, fair values of a financial instrument or non-financial asset or liability are determined using quoted prices in active markets for identical assets or liabilities. Where the market is not active, fair value is established using a valuation technique, including pricing models. Where available, valuation techniques use market observable assumptions and inputs. If such information is not available, inputs may be derived by reference to similar instruments in active markets, from recent prices for comparable transactions or from other observable market data. If market observable data is not available, UBS selects non-market observable inputs to be used in its valuation techniques. UBS also uses internally developed models. 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, and failure to make the changes necessary to reflect evolving market conditions could have a material adverse effect on UBS's financial results. Moreover, evolving market practice may result in changes to valuation techniques that have a material impact on financial results. Changes in model inputs or calibration, changes in the valuation methodology incorporated in models, or failure to make the changes necessary to reflect evolving market conditions could have a material adverse effect on UBS's financial results.

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

The viability of UBS's business depends upon the availability of funding sources, and UBS's success depends upon its 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 retail and wholesale deposits and the regular issuance of money market securities. The volume of UBS's funding sources has generally been stable, but could change in the future due to, among other things, general market disruptions or widening credit spreads, which could also influence the cost of funding. A change in the availability of short-term funding could occur quickly.

Reductions in UBS's credit ratings can increase 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 connection with Moody's downgrading of UBS's long-term rating in June 2012, ratings downgrades can require UBS to post additional collateral or make additional cash payments under master trading agreements relating to UBS's derivatives businesses. UBS's credit ratings, together with its capital strength and reputation, also contribute to maintaining client and counterparty confidence and it is possible that ratings changes could influence the performance of some of UBS's businesses.

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

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

The financial services industry is characterised by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. UBS faces competition at the level of local markets and individual business lines, and from global financial institutions that are comparable to UBS in their size and breadth. Barriers to entry in individual markets and pricing levels are being eroded by new technology. UBS expects these trends to continue and competition to increase. UBS's competitive strength and market position could be eroded if UBS is unable to identify market trends and developments, does not respond to them by devising and implementing adequate business strategies, adequately developing or updating its technology, particularly in trading businesses, or is unable to attract or retain the qualified people needed to carry them out.

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

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

affected by the Minder Initiative must undertake a first binding vote on management compensation and remuneration of the board of directors at its 2015 annual general meeting.

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

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

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

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

The goodwill UBS has recognised on the respective balance sheets of its operating segments is tested for impairment at least annually. UBS's impairment test in respect of the assets recognised as of 31 December 2013 indicated that the value of 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. In the third quarter of 2012, for example, the recognition by the Investment Bank of a full impairment of goodwill and of an impairment of other non-financial assets resulted in a charge of almost CHF 3.1 billion against UBS's operating profit before tax.

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

The deferred tax assets UBS has recognised on its balance sheet as of 31 December 2014 in respect of prior years' tax losses reflect the probable recoverable level based on future taxable profit as informed by its business plans. If the business plan earnings and assumptions in future periods substantially deviate from current forecasts, the amount of recognised deferred tax assets may need to be adjusted in the future. These adjustments may include write-downs of deferred tax assets through the income statement.

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

In 2015, notwithstanding the effects of any potential reassessment of the level of deferred tax assets, UBS expects its effective tax rate to be approximately 25 per cent. Consistent with past practice, UBS expects to revalue its overall level of deferred tax assets in the second half of 2015 based on a reassessment of future profitability taking into account updated business plan forecasts. The full year effective tax rate could change significantly on the basis of this reassessment. It could also change if aggregate tax expenses for locations other than Switzerland, the US and UK differ from what is expected. UBS's effective tax rate is also sensitive to any future reductions in statutory tax rates, particularly in the US and Switzerland. Reductions in the statutory tax rate would cause the expected future tax benefit from items

such as tax loss carry-forwards in the affected locations to diminish in value. This in turn would cause a write-down of the associated deferred tax assets.

In addition, statutory and regulatory changes, as well as changes to the way in which courts and tax authorities interpret tax laws could cause the amount of taxes ultimately paid by UBS to materially differ from the amount accrued.

The UBS Group is currently considering changes to its legal structures in the US, UK, Switzerland and other countries in response to regulatory changes. Tax laws or the tax authorities in these countries may prevent the transfer of tax losses incurred in one legal entity to newly organised or reorganised subsidiaries or affiliates or may impose limitations on the utilisation of tax losses that are expected to carry on businesses formerly conducted by the transferor. Were this to occur in situations where there were also limited planning opportunities to utilise the tax losses in the originating entity, the deferred tax assets associated with such tax losses could be written down through the income statement.

In 2011, the UK government introduced a balance sheet based levy payable by banks operating or resident in the UK. A net charge of CHF 124 million was recognised in operating expenses (within operating profit before tax) in 2013. UBS's bank levy expense for future years will depend on both the rate of the levy and UBS's taxable UK liabilities at each year-end; changes to either factor could increase the cost. This expense will likely increase if, for example, UBS changes its booking practices so as to book more liabilities into its UK bank subsidiary, UBS Limited. UBS expects that the annual bank levy charge will continue to be recognised for IFRS purposes as an expense 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.

*The UBS Group's stated capital returns objective is based, in part, on capital ratios that are subject to regulatory change and may fluctuate significantly.*

The UBS Group has committed to return more than 50 per cent. of its net profit to shareholders as capital returns, provided its fully-applied CET1 ratio is at least 13 per cent. and its post-stress fully-applied CET1 ratio is at least 10 per cent. As of 31 December 2014, UBS Group's post-stress CET1 capital ratio exceeded this 10 per cent. objective, and the actions of the SNB did not cause a breach of this objective in January 2015. However, the UBS Group's ability to maintain a fully-applied CET1 ratio of at least 13 per cent. is subject to numerous risks, including the results of its business, changes to capital standards, methodologies and interpretation that may adversely affect the UBS Group's calculated fully-applied CET1 ratio, imposition of risk add-ons or additional capital requirements, such as additional capital buffers.

Changes in the methodology, assumptions, stress scenarios and other factors may result in material changes in the UBS Group's post-stress fully-applied CET1 ratio, maintenance of which is an objective of the UBS Group's capital returns policy. To calculate its post-stress CET1 capital ratio, the UBS Group forecasts capital one year ahead based on internal projections of earnings, expenses, distributions to shareholders and other factors affecting CET1 capital, including the UBS Group's net defined benefit assets and liabilities. The UBS Group also forecasts one-year developments in RWA. The UBS Group adjusts these forecasts based on assumptions as to how they may change as a result of a severe stress event. The UBS Group then further deducts from capital the stress loss estimated using its combined stress test ("CST") framework to arrive at the post-stress CET1 capital ratio. Changes to the UBS Group's results, business plans and forecasts, in the assumptions used to reflect the effect of a stress event on its business forecasts or in the results of the UBS Group's CST, could have a material effect on the UBS Group's stress scenario results and on its calculated fully applied post-stress CET1 capital ratio. The UBS Group's CST framework relies on various risk exposure measurement methodologies which are predominantly proprietary, on its selection and definition of potential stress scenarios and on its assumptions regarding estimates of changes in a wide range of macroeconomic variables and certain idiosyncratic events for each of those scenarios. The UBS Group periodically reviews these methodologies, and assumptions are subject to periodic review and change on a regular basis. The UBS Group's risk exposure measurement methodologies may change in response to developing market practice and enhancements to the UBS Group's own risk control environment, and input parameters for models may change due to changes in positions, market parameters and other factors. The UBS Group's stress scenarios, the events comprising a scenario and the assumed shocks and market and economic consequences applied in each scenario are subject to periodic review and change. A change in the CST scenario used to calculate the fully applied post-stress CET1 capital ratio, or in the assumptions used in a particular scenario, may cause the post-stress CET1 capital ratio to fluctuate materially from period to

period. The UBS Group's business plans and forecasts are subject to inherent uncertainty, its choice of stress test scenarios and the market and macroeconomic assumptions used in each scenario are based on judgment and assumptions about possible future events. The UBS Group's risk exposure methodologies are subject to inherent limitations, rely on numerous assumptions as well as on data which may have inherent limitations. In particular, certain data is not available on a monthly basis and the UBS Group may therefore rely on prior month / quarter data as an estimate. All of these factors may result in the UBS Group's post-stress CET1 capital ratio, as calculated using its methodology for any period, being materially higher or lower than the actual effect of a stress scenario.

*Risks associated with a squeeze-out merger*

If the UBS Group conducts a squeeze-out merger under Swiss law, UBS AG will merge into a merger subsidiary of the UBS Group, which will survive the transaction. Although the UBS Group expects that the surviving entity will in most cases succeed to UBS AG's banking licenses, permits and other authorisations, such entity may need to re-apply for or seek specific licenses, permits and authorisations, as well as third-party consents. Furthermore, although the UBS Group expects this occurrence to be unlikely given that minority shareholders subject to the squeeze-out will be offered listed securities in the new ultimate parent company of the UBS Group and the consideration to be offered in the squeeze-out merger will be identical to the consideration offered in the exchange offer, under Swiss law, a minority shareholder subject to the squeeze-out merger could theoretically seek to claim, within two months of the publication of the squeeze-out merger, that the consideration offered is "inadequate" and petition a Swiss competent court to determine what is "adequate" consideration. Each of these circumstances, if it were to happen, may generate costs, delay the implementation of the squeeze-out merger or disrupt or negatively impact the UBS Group's business.

## TERMS AND CONDITIONS OF THE NOTES

The terms and conditions of the Tier 1 Subordinated Notes issued by UBS Group AG are as follows:

### 1. DEFINITIONS

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

"**Additional Tier 1 Capital**" means, at any time, any item that qualifies as additional tier 1 capital (*zusätzliches Kernkapital*) under National Regulations at such time.

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

"**Alignment Event**" has the meaning assigned to such term in Condition 11 (*Substitution and Amendment*).

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

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

"**Authorised Signatories**" means any two authorised officers of the Issuer signing jointly.

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

"**Bankruptcy Event**" means any of the following events with respect to UBS Group AG: (i) the adjudication of bankruptcy (*Konkurseröffnung*) pursuant to articles 171, 189, 190, 191 or 192 of the DEBA including, without limitation, in connection with article 725a of the Swiss Code, (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 or pursuant to any successor or analogous Swiss law or regulation applicable to bank holding companies in Switzerland such as UBS Group AG, and/or (iv) the ordering of liquidation proceedings (*Liquidation*) pursuant to articles 33 to 37g of the FBA or pursuant to any successor or analogous Swiss law or regulation applicable to bank holding companies in Switzerland such as UBS Group AG; *provided, however*, that 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 or pursuant to any successor or analogous Swiss law or regulation applicable to bank holding companies in Switzerland such as UBS Group AG, including, in the case of each of clauses (x), (y) and (z), any steps (other than any steps described in clauses (i) through (iv) above) taken under or in connection therewith.

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

"**BIS Risk Weighted Assets**" means, as of any Balance Sheet Date, the aggregate amount, in Swiss francs, of risk-weighted assets of the Group as of such Balance Sheet Date, as determined by the Group Holding Company pursuant to the BIS Regulations applicable to the Group Holding Company 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 has the meaning assigned to such term in the BIS Regulations in effect as of the relevant Balance Sheet Date.

**"Buffer Capital"** means, at any time, any item that is eligible to be treated as buffer capital (*Eigenmittelpuffer*) for systemically relevant banks (*systemrelevante Banken*) under National Regulations at such time.

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

**"Calculation Agent"** means UBS AG, in its capacity as calculation agent for the Notes, and includes any successor Calculation Agent appointed in accordance with the terms of the Agency Agreement.

**"Calculation Amount"** means USD 1,000.

**"Calculation Period"** means the relevant period for which interest is to be calculated from (and including) the first day in such period to (but excluding) the last day in such period.

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

**"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 the Group Holding Company pursuant to the BIS Regulations applicable to the Group Holding Company 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 has 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 the Group Holding Company, 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.

**"Compliant Securities"** means securities issued by UBS Group AG or any of its subsidiaries that have economic terms not materially less favourable to a Holder than these Terms and Conditions (as reasonably determined by the Issuer), provided that

- (i) such securities (A) include terms that provide for the same interest rate and principal from time to time applying to the Notes, (B) rank *pari passu* with the Notes and (C) preserve any existing rights under these Terms and Conditions to any accrued and unpaid interest that has not been satisfied;
- (ii) where such securities are issued by a subsidiary of UBS Group AG, UBS Group AG has irrevocably and unconditionally guaranteed to the Holders, on a subordinated basis corresponding *mutatis mutandis* to Condition 3 (*Status and Subordination*), the due and punctual payment of all amounts due and payable by such subsidiary under, or in respect of, such securities pursuant to article 111 of the Swiss Code;

- (iii) where the Notes that have been substituted or amended were listed immediately prior to their substitution or amendment, the relevant securities are listed on (A) the SIX Swiss Exchange or (B) such other internationally recognised stock exchange selected by the Issuer; and
- (iv) where the Notes that have been substituted or amended were rated by a rating agency immediately prior to such substitution or amendment, each such rating agency has ascribed, or announced its intention to ascribe and publish, an equal or higher rating to the relevant securities.

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

**"Day Count Fraction"** means, in respect of any period, the number of days in the relevant period divided by 360 calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

**"Y1"** is the year, expressed as a number, in which the first day of the Calculation Period falls;

**"Y2"** is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

**"M1"** is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

**"M2"** is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

**"D1"** is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

**"D2"** is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

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

**"Distributable Items"** means, in respect of an Interest Payment Date, the aggregate of (i) net profits carried forward and (ii) freely distributable reserves, in each case, less any amounts that must be contributed to legal reserves under applicable law, all in UBS Group AG's reporting currency and as appearing in the Relevant Accounts.

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

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

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

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

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

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

"**First Call Date**" means 19 February, 2020.

"**Fixed Interest Rate**" means 7.125 per cent. per annum.

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

"**Group**" means, at any time, the Group Holding Company and all its subsidiaries and other entities that are included in the Group Holding Company's consolidated capital adequacy reports prepared pursuant to National Regulations.

"**Group Holding Company**" means, at any time, the top Swiss holding company at such time of the financial group to which UBS Group AG belongs for purposes of preparing consolidated capital adequacy reports pursuant to National Regulations. As at the Issue Date, the Group Holding Company is UBS Group AG.

"**Higher-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 Higher-Trigger Contingent Capital, if any, outstanding on the relevant Balance Sheet Date that could be converted into equity and/or fully or partially written down, or otherwise operate to increase the CET1 Capital, if a Higher-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 Higher-Trigger Contingent Capital, if any, issued after the relevant Balance Sheet Date, but prior to such Publication Date, that could be converted into equity and/or fully or partially written down, or otherwise operate to increase the CET1 Capital, if a Higher-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 Group 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 Higher-Trigger Contingent Capital that is not denominated in Swiss francs will 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 Group AG. In the case of an Ordinary Publication Date, for purposes of clause (i) of this definition, the aggregate principal amount of any Higher-Trigger Contingent Capital that is not denominated in Swiss francs will be converted into Swiss francs at the applicable exchange rate used for such purposes in the relevant Quarterly Financial Accounts.

"**Higher-Trigger Contingent Capital**" means any instrument issued by, or any other obligation of, any member of the Group that (i) is issued or owed to holders that are not members of the Group and (ii) is required pursuant to its terms to be converted into equity and/or fully or partially written down, or otherwise operating to increase the CET1 Capital, when the CET1 Ratio (or equivalent capital measure of the Group described in the terms and conditions thereof) falls below a threshold that is higher than the Write-down Threshold (with respect to the relevant Higher-Trigger Contingent Capital, its "**Higher-Trigger Threshold**").

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

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

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



the FINMA to waive the conversion into equity and/or write-down of such Higher-Trigger Contingent Capital notwithstanding the fact that the CET1 Ratio (or similar measure or other event described in the terms and conditions of such Higher-Trigger Contingent Capital) has fallen below Higher-Trigger Threshold, the non-issuance of such a waiver by the FINMA between the relevant Publication Date and the Trigger Event Notice Date shall be deemed equivalent to the delivery of a Higher-Trigger Write-down/Conversion Notice for purposes of clause (b)(ii) of Condition 6.

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

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

**"Interest Period"** means each period beginning on (and including) an Interest Payment Date (or, in the case of the first Interest Period, the Issue Date) and ending on (but excluding) the next Interest Payment Date.

**"Interest Rate"** means the Fixed Interest Rate and/or Reset Interest Rate, as the case may be.

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

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

**"Issue Date"** means 19 February 2015.

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

**"Junior Obligations"** means (i) all classes of share capital and participation securities (if any) of the Issuer and (ii) all other obligations of the Issuer that rank, or are expressed to rank, junior to claims in respect of the Notes and/or any Parity Obligation.

**"Margin"** means 5.464 per cent. per annum.

**"Mid Market Swap Rate"** means, in relation to a Reset Interest Period and the Reference Rate Determination Date in relation to such Reset Interest Period:

- (i) the semi-annual-mid rate for U.S. dollar swaps with a term of five years which appears on the Relevant Page as of 11:00 a.m. (New York City time) on such Reference Rate Determination Date; or
- (ii) if such rate does not appear on the Relevant Page at such time on such Reference Rate Determination Date, the Reset Reference Bank Rate on such Reference Rate Determination Date.

**"Mid Market Swap Rate Quotations"** means the arithmetic mean of the bid and offered rates for the semi-annual fixed leg (calculated on a 30/360 day count basis) of a fixed-for-floating U.S. dollar interest rate swap transaction which:

- (i) has a term of five years commencing on the relevant Reset Date; and
- (ii) is in an amount that is representative for a single transaction in the relevant market at the relevant time with an acknowledged dealer of good credit in the swap market; and
- (iii) has a floating leg based on 6-month U.S. dollar LIBOR (calculated on an Actual/360 day count basis).

**"National Regulations"** means, at any time, (i) the Swiss national banking and capital adequacy laws, and (ii) the capital adequacy regulations promulgated by the Swiss Federal Council (*Bundesrat*) or the FINMA and the interpretation thereof by the FINMA or any other competent

Swiss authority, in the case of each of clauses (i) and (ii), directly applicable to the Issuer (and/or, if different, the Group Holding Company) and/or the Group at such time.

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

"**Notes**" means the USD 1,250,000,000 Tier 1 Subordinated Notes issued by the Issuer on the Issue Date.

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

"**Ordinary Shares**" means the registered ordinary shares of the UBS Group AG, which as of the Issue Date have a par value of CHF 0.10 each.

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

"**Parity Obligations**" means (i) all obligations of the Issuer in respect of Tier 1 Instruments (excluding any such obligations that rank, or are expressed to rank, junior to claims in respect of the Notes) and (ii) any other securities or obligations (including any guarantee, credit support agreement or similar undertaking) of the Issuer that rank, or are expressed to rank, *pari passu* with claims in respect of the Notes and/or any Parity Obligation. For purposes of this definition,

- (i) "**Tier 1 Instruments**" means any and all (a) securities or other obligations (other than Tier 1 Shares) issued by the Issuer or (b) shares, securities, participation securities or other obligations (other than Tier 1 Shares) issued by a subsidiary of the Issuer and having the benefit of a guarantee, credit support agreement or similar undertaking of the Issuer, each of which shares, securities, participation securities or other obligations under (a) and (b) qualify, or are issued in respect of a security that qualifies, as Tier 1 Capital of the Group and/or the Issuer (without regard to quantitative limits on such capital) on a consolidated (*Finanzgruppe*) or on an unconsolidated (*Einzelinstitut*) basis.
- (ii) "**Tier 1 Capital**" means Additional Tier 1 Capital or any item that qualifies as common equity tier 1 capital pursuant to National Regulations.
- (iii) "**Tier 1 Shares**" means all classes of share capital and participation certificates (if any) of the Issuer or any subsidiary of the Issuer that qualify as common equity tier 1 capital of the Group and/or the Issuer under National Regulations on a consolidated (*Finanzgruppe*) or on an unconsolidated (*Einzelinstitut*) basis.

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

"**Permitted Transactions**" means:

- (i) repurchases, redemptions or other acquisitions of any Ordinary Shares 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 Ordinary Shares (or securities convertible into, or exercisable for, Ordinary Shares) as consideration for an acquisition consummated by any member of the Group;
- (ii) market-making in Ordinary Shares as part of the securities business of any member of the Group;
- (iii) purchases of fractional interests in any Ordinary Shares pursuant to the conversion or exchange provisions of (x) such Ordinary Shares or (y) any security convertible into, or exercisable for, Ordinary Shares;
- (iv) redemptions or repurchases of Ordinary Shares pursuant to any shareholders' rights plan; and

- (v) distributions in cash or in kind on, or repurchases, redemptions or other acquisitions of, any Ordinary Shares as a part of any solvent reorganisation, reconstruction, amalgamation or merger of any member of the Group, so long as such member (or the successor entity resulting from such reorganisation, reconstruction, amalgamation or merger) continues to be a member of the Group.

**"Principal Paying Agent"** means UBS AG, in its capacity as principal paying agent for the Notes, and includes any successor Principal Paying Agent appointed in accordance with the terms of the Agency Agreement.

**"Public Sector"** means the government of, or a governmental agency or the central bank in, the country of incorporation of the Group Holding Company.

**"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 the Group Holding Company; *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 will 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 the Group Holding Company for such year.

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

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

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

**"Reference Rate"** means, in relation to a Reset Interest Period, the Mid Market Swap Rate determined for such Reset Interest Period by the Calculation Agent on the relevant Reference Rate Determination Date.

**"Reference Rate Determination Date"** means, in relation to a Reset Interest Period, the day falling two Business Days prior to the Reset Date on which such Reset Interest Period commences.

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

**"Relevant Accounts"** means, in respect of any Interest Payment Date, the most recently published audited unconsolidated annual financial statements of the UBS Group AG prepared in accordance with the Swiss Code.

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

**"Relevant Page"** means Reuters Screen "ISDAFIX1" or such other page as may replace it on Reuters or, as the case may be, on such other information service that may replace Reuters, in each case, as may be nominated by the person providing or sponsoring the information appearing there for the purpose of displaying rates comparable to the Mid Market Swap Rate.

**"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 amount of Buffer Capital pursuant to National Regulations at such time.

**"Representative Amount"** means, in relation to any quotation of a rate for which a Representative Amount is relevant, an amount that is representative for a single transaction in the relevant market at the relevant time.

**"Reset Date"** means the First Call Date and each day which falls on the fifth anniversary of the immediately preceding Reset Date.

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

**"Reset Interest Period"** means each period from (and including) any Reset Date and ending on (but excluding) the next Reset Date.

**"Reset Interest Rate"** means, in relation to any Reset Interest Period, the sum of the Margin and the Mid Market Swap Rate in relation to such Reset Interest Period.

**"Reset Reference Bank Rate"** means, in relation to a Reset Interest Period and the Reference Rate Determination Date in relation to such Reset Interest Period, the percentage rate determined on the basis of the Mid Market Swap Rate Quotations provided by the Reset Reference Banks to the Calculation Agent at approximately 11:00 a.m. (New York City time) on such Reference Rate Determination Date. If at least three quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest). If only two quotations are provided, the Reset Reference Bank Rate will be the arithmetic mean of the quotations provided. If only one quotation is provided, the Reset Reference Bank Rate will be the quotation provided. If no quotations are provided, the Reset Reference Bank Rate for the relevant Reset Interest Period will be (i) in the case of each Reset Interest Period other than the Reset Interest Period commencing on the First Call Date, the Mid Market Swap Rate in respect of the immediately preceding Reset Interest Period or (ii) in the case of the Reset Interest Period commencing on the First Call Date, 1.661 per cent. per annum.

**"Reset Reference Banks"** means five major banks in the swap, money, securities or other market most closely connected with the Reference Rate, as selected by the Issuer after consultation with the Calculation Agent.

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

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

**"Senior Obligations"** means all obligations of the Issuer that are unsubordinated or that are subordinated and do not constitute either Junior Obligations or Parity Obligations.

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

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

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

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

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

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

**"Tax Jurisdiction"** means Switzerland.

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

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

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

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

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

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

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

**"USD"** means U.S. dollars.

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

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

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

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

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

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

**"Write-down Threshold"** means 7 per cent.

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

### (a) *Amount and Denomination*

The initial aggregate principal amount of the Notes will be USD 1,250,000,000. The Notes will be issued to Holders in minimum denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof. The principal amount of the Notes may be written down in the circumstances and in the manner described in Condition 6 (*Contingent Write-down*). The Notes may only be held and transferred in minimum denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof.

### (b) *Uncertificated Securities*

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

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

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

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

### 3. STATUS AND SUBORDINATION

#### (a) Status

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

#### (b) Subordination

In the event of (i) a Bankruptcy Event or (ii) an order being made, or an effective resolution being passed, for the liquidation or winding-up of the Issuer (except, in any such case, a solvent liquidation or winding-up of the Issuer solely for the purposes of a reorganisation, reconstruction or amalgamation of the Issuer or the substitution in place of the Issuer of a successor in business to the Issuer, the terms of which reorganisation, reconstruction, amalgamation or substitution (x) have previously been approved by a valid resolution of the Holders and (y) do not provide that the Notes shall become redeemable in accordance with these Terms and Conditions), the rights and claims of the Holders against the Issuer in respect of or arising under (including, without limitation, any damages awarded for breach of any obligation under) the Notes 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.

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

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

### 4. INTEREST

#### (a) Interest Payment Dates

- (i) Subject to Condition 6 (*Contingent Write-down*) and Condition 4(h), the Notes will bear interest on their principal amount (A) from (and including) the Issue Date to (but excluding) the First Call Date, at the Fixed Interest Rate, and (B) thereafter, at the applicable Reset Interest Rate.
- (ii) Subject to Condition 6 (*Contingent Write-down*) and Condition 4(i), interest on the Notes will be payable annually in arrear on 19 February of each year (each, an "**Interest Payment Date**"), commencing on 19 February 2016.

(b) *Determination of Reference Rate in relation to a Reset Interest Period*

The Calculation Agent will, as soon as practicable after 11:00 a.m. (New York City time) on each Reference Rate Determination Date in relation to the relevant Reset Interest Period, determine the Reference Rate and the Reset Interest Rate for such Reset Interest Period and calculate the amount of interest payable per Calculation Amount on the Interest Payment Dates in relation to each Interest Period falling in such Reset Interest Period (each, a "**Reset Interest Amount**").

(c) *Publication of Reset Interest Rate and interest amount payable upon Redemption*

With respect to each Reset Interest Period, as soon as practicable after such determination but in any event not later than the relevant Reset Date the Calculation Agent will cause (i) the relevant Reset Interest Rate and the relevant Reset Interest Amount determined by it, together with the relevant Interest Payment Dates in relation to each Interest Period falling in such Reset Interest Period, to be notified to the Issuer and the Paying Agents and (ii) the relevant Reset Interest Rate determined by it to be notified to any stock exchange or other relevant authority on which the Notes are at the relevant time listed and to be published in accordance with Condition 12 (*Notices*).

The Calculation Agent shall calculate any interest amount payable on the Redemption Date (if the Notes are to be redeemed pursuant to Condition 5 (*Redemption and Purchase*)) and cause such interest amount to be notified to Issuer and the Paying Agents and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed in accordance and to be published in accordance with Condition 12 (*Notices*) no later than two Business Days prior to the Redemption Date.

(d) *Calculation of amount of interest per Calculation Amount*

Subject to Condition 4(i) and Condition 6 (*Contingent Write-down*):

- (i) the amount of interest payable on each Interest Payment Date from the Issue Date to but excluding the First Call Date in respect of the Notes will be USD 71.25 per Calculation Amount; and
- (ii) if interest is required to be paid in respect of a Note on any other date (including, for the avoidance of doubt, the Reset Interest Amount), the amount of interest payable per Calculation Amount will be calculated by:
  - (A) applying the applicable Interest Rate to the Calculation Amount;
  - (B) multiplying the product thereof by the Day Count Fraction; and
  - (C) rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(e) *Calculation of amount of interest per Note*

Subject to Condition 4(i) and Condition 6 (*Contingent Write-down*), the amount of interest payable in respect of a Note shall be the product of:

- (i) the amount of interest per Calculation Amount; and

- (ii) the number by which the Calculation Amount is required to be multiplied to equal the denomination of such Note.

(f) *Notifications, etc. to be final*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes this Condition 4, whether by the Reset Reference Banks (or any of them) or the Calculation Agent, will (in the absence of wilful default, bad faith and manifest error) be binding on the Issuer, the Calculation Agent, the Paying Agents and all Holders and (in the absence of wilful default and bad faith) no liability to the Issuer or the Holders will attach to the Reset Reference Banks (or any of them) or the Calculation Agent in connection with the exercise or non-exercise by any of them of their powers, duties and discretions under this Condition 4.

(g) *Calculation Agent*

So long as any Note is outstanding, the Issuer will 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 Reference Rate and the Reset Interest Amount for any Interest Period or the interest amount payable on the Redemption Date (if the Notes are to be redeemed pursuant to Condition 5 (*Redemption and Purchase*)) 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 (g) 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 12 (*Notices*); *provided, however*, that, in the case of insolvency, such termination or appointment shall take immediate effect.

(h) *Accrual of Interest in the case of Redemption or a Write-down Event*

- (i) Subject to Condition 6 (*Contingent Write-down*), if the Notes are to be redeemed pursuant to clause (b), (c) or (d) of Condition 5 (*Redemption and Purchase*), interest on the Notes will accrue up to (but excluding) the due date for redemption, and will cease to accrue on the due date for redemption; *provided, however*, that if the payment with respect to any Note is improperly withheld or refused on such date, interest will continue to accrue on the principal amount of such Note (both before and after judgment) at the relevant Interest Rate to the Relevant Date.
- (ii) Upon the occurrence of a Write-down Event, interest on the Notes will cease to accrue and any accrued and unpaid interest as at the time of such Write-down Event (whether or not due and payable) will be written down to zero in accordance with Condition 6 (*Contingent Write-down*).

(i) *Cancellation of Interest; Prohibited Interest*

- (i) The Issuer may, at its discretion, elect to cancel all or part of any payment of interest that is otherwise scheduled to be paid on an Interest Payment Date. This Condition 4(i)(i) is without prejudice to the provisions of Condition 4 (i)(ii). Non-payment of any amount of interest by the Issuer to the Principal Paying Agent will constitute evidence of cancellation of the relevant payment, whether or not notice of cancellation has been given by the Issuer.

If practicable, the Issuer shall provide notice of any cancellation of interest (in whole or in part) pursuant to this Condition 4(i)(i) to the Holders on or prior to the relevant Interest Payment Date. If practicable, the Issuer shall endeavour to provide such notice at least five Business Days prior to the relevant Interest



Payment Date. Failure to provide such notice will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation of interest, or give Holders any rights as a result of such failure.

(ii) The Issuer will be prohibited from making, in whole or in part, any payment of interest on the Notes on the relevant Interest Payment Date if and to the extent that:

- (A) the amount of Distributable Items as at such Interest Payment Date is less than the sum of (1) the amount of such interest payment, plus (2) all other payments (other than redemption payments) made by UBS Group AG on the Notes and on or in respect of any Parity Obligations or Junior Obligations since the balance sheet date of the Relevant Accounts and prior to such Interest Payment Date, plus (3) all payments (other than redemption payments) payable by UBS Group AG on such Interest Payment Date on or in respect of any Parity Obligations or Junior Obligations, in the case of each clauses (1), (2) and (3), excluding any portion of such payments already accounted for in determining the amount of such Distributable Items; and/or
- (B) UBS Group AG is not, or will immediately after the relevant payment of interest not be, in compliance with all applicable minimum capital adequacy requirements of the National Regulations on a consolidated (*Finanzgruppe*) basis (for the avoidance of doubt, it being understood that such minimum requirements will reflect any reduction in such requirements granted by the FINMA to the Group pursuant to the Capital Adequacy Ordinance); and/or
- (C) the FINMA has required the Issuer not to make such interest payment.

The Issuer shall deliver a certificate signed by the Authorised Signatories to the Principal Paying Agent and shall give notice in accordance with Condition 12 (*Notices*) to the Holders, in each case as soon as practicable following any determination that interest is required to be cancelled pursuant to this Condition 4(i)(ii) or, where no such prior determination is made, promptly following any Interest Payment Date on which interest was scheduled to be paid if such interest is being cancelled in accordance with this Condition 4(i)(ii), to such effect setting out brief details as to the amount of interest being cancelled and the reason therefor. Failure to provide such certificate and notice will not have any impact on the effectiveness of, or otherwise invalidate, any such cancellation or give any Holder any rights as a result of such failure.

(iii) If, on any Interest Payment Date, any payment of interest scheduled to be made on such date is not made in full pursuant to Condition 4(i)(i) or 4(i)(ii), UBS Group AG shall not, directly or indirectly,

- (A) recommend to holders of its Ordinary Shares, that any dividend or other distribution in cash or in kind (other than in the form of Ordinary Shares) be paid or made on any Ordinary Shares; and
- (B) redeem, purchase or otherwise acquire any Ordinary Shares other than as a Permitted Transaction,

in each case unless and until (x) the interest payment due and payable on the Notes on any subsequent Interest Payment Date has been paid in full (or an amount equal to the same has been paid in full to a designated third party trust account for the benefit of the Holders prior to payment by the trustee thereof to the Holders on such subsequent Interest Payment Date) or, if earlier, (y) all outstanding Notes have been cancelled in accordance with these Terms and Conditions.

- (iv) Payments of interest on the Notes are not cumulative. Notwithstanding any other provision in these Terms and Conditions, the cancellation or non-payment of any interest amount by virtue of this Condition 4(i) will not constitute a default for any purpose (including, without limitation, Condition 10 (*Events of Default*)) on the part of the Issuer. Any interest payment not paid by virtue of this Condition 4(i) will not accumulate or be payable at any time thereafter, and Holders will have no right thereto.
- (v) If the Issuer determines, after consultation with the FINMA, that the Notes do not, or will cease to, fully qualify as Additional Tier 1 Capital, (A) the Issuer shall not, to the extent permitted under National Regulations, exercise its discretion pursuant to Condition 4(i)(i) to cancel any interest payments due on the Notes on any Interest Payment Date following the occurrence of such determination, and (B) the Issuer shall give notice to the Holders in accordance with Condition 12 (*Notices*) as soon as practicable after such determination stating that the Issuer may no longer exercise its discretion pursuant to Condition 4(i)(i) to cancel any interest payments as from the date of such notice.

## 5. REDEMPTION AND PURCHASE

### (a) *No Fixed Redemption Date*

The Notes are perpetual securities in respect of which there is no fixed redemption date. Unless previously redeemed or purchased and cancelled in accordance with this Condition 5 and subject to Condition 6 (*Contingent Write-down*), the Notes are perpetual and may only be redeemed or purchased in accordance with this Condition 5.

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

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 First Call Date or on any other Interest Payment Date thereafter at their aggregate principal amount, together with any accrued and unpaid interest thereon to (but excluding) the First Call Date or such other Interest Payment Date, as applicable.

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

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

### (d) *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 Redemption Date at their aggregate principal amount, together with any accrued and unpaid interest thereon to (but excluding) such Redemption Date.
  - (ii) A "**Regulatory Event**" is deemed to have occurred if the Notes do not, or will cease to, fully qualify as either Additional Tier 1 Capital or Buffer Capital (or both).
- (e) *Conditions for Redemption*
  - (i) 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 12 (*Notices*) (a "**Redemption Notice**"), which notice shall, subject to Condition 5(f), be irrevocable and specify the date on which the Issuer will redeem the Notes pursuant to such clause of this Condition 5 (such specified date, the "**Redemption Date**").
  - (ii) The Issuer may only redeem the Notes pursuant to clause (b) or (c) of this Condition 5 on the relevant Redemption Date if the FINMA has approved such redemption on or prior to such Redemption Date, if such approval is then required.
  - (iii) The Issuer may only redeem the Notes pursuant to any clause of this Condition 5 on the relevant Redemption Date if no Trigger Event or Viability Event has occurred prior to such Redemption Date.
  - (iv) Prior to the publication of any notice of redemption pursuant to clause (i) of this Condition 5(e), the Issuer shall deliver to the Principal Paying Agent (A) a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to redeem under this Condition 5 is satisfied and the reasons therefor and such certificate will be conclusive and binding on the Holders, and (B) an opinion of independent legal advisers of recognised standing to the effect that circumstances entitling the Issuer to exercise its right of redemption under this Condition 5 have arisen.
- (f) *Purchases*

The Issuer 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) other than in the case of purchases made in connection with stabilisation measures in compliance with applicable law or in connection with any market making in the Notes, the FINMA has approved such purchase (if such approval is then required) on or prior to the date of such purchase, and (iii) no Trigger Event or Viability Event has occurred prior to the date of such purchase. Any Notes so purchased may, at the option of the Issuer, be held, reissued, resold or cancelled.
- (g) *Cancellation*

All Notes redeemed in accordance with this Condition 5 will be cancelled and may not be reissued or resold.
- (h) *Redemption of Other Instruments*

For the avoidance of doubt, it is understood that, if, upon the occurrence of a Tax Event or a Regulatory Event, the Issuer does not elect to redeem the Notes pursuant to this Condition 5, nothing in this Condition 5 or any other provision of these Terms and Conditions will prohibit the Issuer from redeeming (whether early, at maturity or

otherwise) 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 will occur on the Trigger Event Write-down Date in accordance with clause (d) of this Condition 6.
- (ii) A "**Trigger Event**" is 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, the Trigger CET1 Ratio as of such Publication Date is less than the Write-down Threshold, 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 Ordinary 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 Extraordinary Publication Date (the "**Extraordinary Trigger Event Notice Date**"), in each case in accordance with Condition 12 (*Notices*).
- (ii) If the Issuer is required to give a Trigger Event Write-down Notice pursuant to clause (b)(i) of this Condition 6, and on the relevant Publication Date any Higher-Trigger Contingent Capital is outstanding with respect to which either (x) no Higher-Trigger Write-down/Conversion Notice has been given prior to the Trigger Event Notice Date or (y) a Higher-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 Higher-Trigger Write-down/Conversion Date,
  - (A) in the case of clause (x) above, the Issuer will postpone giving such Trigger Event Write-down Notice until the date on which a Higher-Trigger Write-down/Conversion Notice has been given with respect to all such outstanding Higher-Trigger Contingent Capital and such date will 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 Higher-Trigger Write-down/Conversion Date (or, in the case of more than one Higher-Trigger Write-down/Conversion Date, the latest Higher-Trigger Write-down/Conversion Date), the Trigger Event Write-down Date will be postponed to the Higher-Trigger Write-down/Conversion Date (or the latest Higher-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 the Issuer, has agreed in writing that a Contingent Write-down is not required as a result of actions taken by the Group or circumstances or events, in each case, that have had, or imminently will have, the effect of restoring the CET1 Ratio as of the Balance Sheet Date relating to the relevant Ordinary Publication Date, after

giving pro forma effect to such actions, circumstances or events, to a level above the Write-down Threshold that the FINMA and the Issuer deem, in their sole discretion, to be adequate at such time, the Issuer (x) shall not give such Trigger Event Write-down Notice pursuant to clause (b)(i) of this Condition 6 in relation to the relevant Ordinary Publication Date, and (y) shall give notice to the Holders on or prior to the Trigger Breach Determination Date in accordance with Condition 12 (*Notices*), which notice shall state that no Contingent Write-down will occur in relation to the relevant Ordinary Publication Date.

(c) *Viability Event*

- (i) Subject to Condition 6(f), upon the occurrence of a Viability Event, (A) the Issuer shall give notice to the Holders in accordance with Condition 12 (*Notices*) within three days of the date on which such Viability Event occurred, which notice shall (x) state that a Viability Event has occurred and a Contingent Write-down will take place and (y) specify the date on which the Contingent Write-down will take place, which date shall be no later than 10 Business Days after the date of such notice (such specified date, the "**Viability Event Write-down Date**", and such notice, a "**Viability Event Write-down Notice**"), and (B) a Contingent Write-down will occur on the Viability Event Write-down Date in accordance with clause (d) of this Condition 6.
- (ii) A "**Viability Event**" will be deemed to have occurred if prior to an Alternative Loss Absorption Date (if any):
  - (A) the FINMA has notified the Issuer 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 all other capital instruments issued by, or other capital obligations (whether qualifying fully or partially for capital treatment) of, 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 the Group Holding Company's capital adequacy are at the time inadequate or infeasible, an essential requirement to prevent the Group Holding Company 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 the Group Holding Company's capital adequacy being at the time inadequate or infeasible, the Group Holding Company 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 the Group Holding Company's capital adequacy and without which, in the determination of (and as notified in writing by) the FINMA, the Group Holding Company 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, and any accrued and unpaid interest (whether or not due and payable) on, 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 these Terms and Conditions will be construed accordingly;
  - (ii) the Holders will be automatically deemed to have irrevocably waived their right to receive, and will no longer have any rights against the Issuer with respect to, repayment of the aggregate principal amount of, and payment of any accrued and unpaid interest on, the Notes written down pursuant to clause (i) of this Condition 6(d) (*bedingter Forderungsverzicht*); and
  - (iii) 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.
- (e) *Determination of CET1 Ratio and Trigger CET1 Ratio*

With respect to any Publication Date, (i) the CET1 Ratio as of the relevant Balance Sheet Date, (ii) the Trigger CET1 Ratio as of such Publication Date and (iii) the components of both of the foregoing, in each case, as published on such Publication Date, will 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 will have no effect for purposes of this Condition 6.

- (f) *Alternative Loss Absorption*

In the event of the implementation of any new, or amendment to or change in the interpretation of any existing, laws or components of National Regulations, in each case occurring after the Issue Date, that alone or together with any other law(s) or regulation(s) has, in the joint determination of the Issuer and the FINMA, the effect that Condition 6(c) could cease to apply to the Notes without giving rise to a Regulatory Event, then the Issuer shall give notice to the Holders in accordance with Condition 12 (*Notices*) no later than five Business Days after such joint determination stating that such provisions will cease to apply from the date of such notice (the "**Alternative Loss Absorption Date**"), and from the date of such notice, such provisions will cease to apply to the Notes.

## 7. PAYMENTS

- (a) All payments required to be made under the Notes will be made available in good time in freely disposable USD, which will be placed at the free disposal of the Principal Paying 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 will 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 USD without collection costs, without any restrictions and whatever the circumstances may be, irrespective of nationality, domicile or residence of the relevant Holder and without certification, affidavit or the fulfilment of any other formality.
- (b) The Issuer reserves the right to terminate the appointment of the Principal Paying Agent, as well as to appoint or, after any such appointment, to terminate the appointment of, one or more other paying agents to carry out any payment, calculation or other functions in respect of the Notes (each, a "**Paying Agent**", which term shall include the Principal Paying Agent). Any such appointment or termination of appointment shall only take effect not more than 45 and not less than 30 days' after the Issuer has notified the Holders of such appointment or termination pursuant to Condition 12 (*Notices*); *provided, however*, that, in the case of insolvency of any Paying Agent, any termination

of such Paying Agent and appointment of any other Paying Agent shall take immediate effect. Additionally, for so long as the Notes are listed on the SIX Swiss Exchange, the Issuer shall maintain a paying agent in Switzerland, which agent shall have an office in Switzerland and be a duly licensed Swiss bank or securities dealer or otherwise be subject to supervision by FINMA, to perform the functions of a Swiss paying agent. Notwithstanding the foregoing, if legislation is enacted in Switzerland providing for the taxation of payments according to principles similar to those laid down in the draft legislation proposed by the Swiss Federal Council on 17 December 2014, the Issuer shall appoint a Paying Agent outside of Switzerland if and to the extent that making such payments through such Paying Agent would eliminate any withholding tax that would otherwise apply to such payments pursuant to such legislation.

## 8. TAXATION

- (a) All payments to be made by or on behalf of the Issuer pursuant to these Terms and Conditions (including for the avoidance of doubt, payments by a Paying Agent) shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other government charges of any nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of any Tax Jurisdiction or any political subdivision thereof or any authority of or in a Tax Jurisdiction or any political subdivision thereof having the power to impose, levy, collect, withhold or assess Taxes, unless withholding, deduction or accounting for such Taxes is required by law.
- (b) In the event that any payment to be made by or on behalf of the Issuer pursuant to these Terms and Conditions (including for the avoidance of doubt, payments by a Paying Agent) is subject to any withholding or deduction for, or on account of, any Taxes by requirement of law in a Tax Jurisdiction, the Issuer shall pay such additional amounts as will result in the Holders receiving the amounts that they would have received pursuant to these Terms and Conditions if no such withholding or deduction had been required ("**Additional Amounts**").
- (c) The Issuer shall not be required to pay any Additional Amounts pursuant to clause (b) of this Condition 8 in relation to any Note:
  - (i) if the relevant Holder is liable for such Taxes on such Note as a result of having some connection with the relevant Tax Jurisdiction other than its mere ownership or possession of such Note or the receipt of principal or interest in respect thereof; or
  - (ii) where such withholding or deduction is required to be made pursuant to the EU Savings Tax Directive, or any law implementing or complying with, or introduced in order to conform to, the EU Savings Tax Directive or pursuant to any agreements between the European Community and any other country or territory providing for measures equivalent to those laid down in the EU Savings Tax Directive; or
  - (iii) if the relevant Holder would have been able to avoid such withholding or deduction by arranging to receive payment through another Paying Agent (if more than one is appointed) in another Member State of the European Union; or
  - (iv) with respect to any Tax collected pursuant to the provisions of, or any laws or an agreement with any Tax Jurisdiction relating to, Sections 1471 through 1474 of the U.S. Internal Revenue Code (commonly referred to as "FATCA"); or
  - (v) where such withholding or deduction is required to be made pursuant to laws enacted by Switzerland after the Issue Date 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 17 December 2014, in particular, the principle to have a person other than the Issuer withhold or deduct tax; or

- (vi) where such withholding or deduction is required to be made pursuant to an agreement between Switzerland and another country or countries on final withholding taxes levied by Swiss paying agents in respect of persons resident in the other country or countries on income of such person on Notes booked or deposited with a Swiss paying agent (*Abgeltungssteuer*); or
- (vii) to the extent any combination of clauses (i) through (vi) 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 will become time-barred after the five-year period and (ii) claims for the repayment or redemption of Notes will 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 occurs, such occurrence will constitute an "**Event of Default**":
  - (i) the Issuer fails to pay the principal amount of any Note if and when the same becomes due and payable under these Terms and Conditions, and such failure continues unremedied for a period of 30 days; or
  - (ii) the Issuer fails to pay any interest on the Notes if and when the same becomes due and payable under these Terms and Conditions, and such failure continues unremedied for a period of 30 days; or
  - (iii) the Issuer fails 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) continues unremedied for a period of 60 days after written notice thereof from any Holder to the Issuer; or
  - (iv) a Bankruptcy Event.
- (b) Upon the occurrence of an Event of Default relating to any failure of the Issuer to meet any payment obligation under these Terms and Conditions and subject to Condition 6 (*Contingent Write-down*), (i) such payment obligation (and such payment obligation only) will 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 the DEBA, 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 the DEBA.
- (c) If a debt collection or 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) of this Condition 10 and subject to Condition 6 (*Contingent Write-down*), any Holder may seek specific



performance or damages with respect to such Event of Default pursuant to the Swiss Code if so entitled thereunder. Any such damage claim of any Holder will rank junior to the rights and claims of all holders of Senior Obligations.

- (e) In the case of any Event of Default arising under clause (a)(iv) of this Condition 10 and subject to Condition 6 (*Contingent Write-down*), any Holder may, by written notice to the Issuer, declare the principal amount of any of its Notes, together with any accrued and unpaid interest thereon, immediately due and payable, without presentment, demand, protest or other notice of any kind.
- (f) No remedy against the Issuer other than those described in this Condition 10 will 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 any Redemption 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. SUBSTITUTION AND AMENDMENT

- (a) If a Tax Event, a Regulatory Event or an Alignment Event has occurred, the Issuer may, without the consent of the Holders unless so required by mandatory provisions of Swiss law, either substitute all, but not some only, of the Notes for, or amend the terms and conditions of the Notes so that they remain or become, Compliant Securities, *provided* that
  - (i) neither a Tax Event nor a Regulatory Event arises as a result of such substitution or amendment;
  - (ii) the FINMA has approved such substitution or amendment (if such approval is then required);
  - (iii) the Issuer has given the Holders not less than 30 days' notice of such substitution or amendment in accordance with Condition 12 (*Notices*), which notice (the "**Substitution or Amendment Notice**") will, subject to clause (iv) below, be irrevocable, and state the date on which such substitution or amendment will be effective (the "**Substitution or Amendment Effective Date**");
  - (iv) prior to the publication of any notice pursuant to clause (iii) of this Condition 11(a), the Issuer shall deliver to the Principal Paying Agent (A) a certificate signed by two Authorised Signatories stating that the relevant requirement or circumstance giving rise to the right to substitute or amend the terms of the Notes, as applicable, pursuant to this Condition 11(a) is satisfied and the reasons therefor and such certificate will be conclusive and binding on the Holders, and (B) an opinion of independent legal advisers of recognised standing to the effect that circumstances entitling the Issuer to exercise its right to substitute or amend the terms of the Notes, as applicable, pursuant to this Condition 11(a) have arisen; and
  - (v) no Trigger Event or Viability Event has occurred prior to the relevant Effective Date.

In connection with any substitution or amendment in accordance with this Condition 11 (a), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

An "**Alignment Event**" will be deemed to have occurred if, as a result of any change in National Regulations at any time after the Issue Date, any Relevant Swiss Issuer would be permitted to issue or guarantee (including by providing a guarantee, credit support

agreement or similar undertaking), or has issued or guaranteed (including by providing a guarantee, credit support agreement or similar undertaking), a capital instrument that (i) qualifies as Additional Tier 1 Capital and Buffer Capital, and (ii) has terms and conditions that (A) include a write-down feature, and (B) contain one or more provisions that are, in the reasonable opinion of UBS Group AG, 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 Additional Tier 1 Capital and/or Buffer Capital immediately prior to such change in National Regulations.

- (b) In addition to its rights under clause (a) of this Condition 11, the Issuer may, without the consent of the Holders unless so required by mandatory provisions of Swiss law, make any amendment to these Terms and Conditions that it considers to be (i) necessary or desirable to give effect to the provisions of clause (a) of Condition 13 (*Issuer Substitution*) (including, without limitation, (x) if the Substitute Issuer is organised and/or resident for tax purposes in a jurisdiction other than Switzerland, any amendments to any references to the jurisdiction of "Switzerland" contained herein, including, without limitation, amendments to the definition of the term "Bankruptcy Event", the definition of the term "Business Day", the governing law of the subordination provisions set forth in Condition 3 (*Status and Subordination*) and the provisions of Condition 10 (*Events of Default*)), and (y) any amendments to reflect UBS Group AG's guarantee described in clause (a)(vi) of Condition 13 (*Issuer Substitution*)), or (ii) formal, minor or technical in nature, or (iii) necessary to correct a manifest error or (iv) not materially prejudicial to the interests of the Holders.
- (c) The Issuer shall notify the Holders of any amendments made pursuant to clause (b) of this Condition 11 in accordance with Condition 12 (*Notices*), which notice shall state the date on which such amendment will be effective.
- (d) Any amendment made pursuant to this Condition 11 will be binding on the Holders in accordance with its terms.

## 12. NOTICES

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

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

## 13. ISSUER SUBSTITUTION

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

and pursuant to which the Substitute Issuer has undertaken in favour of each Holder to be bound by these Terms and Conditions as the principal debtor (on a subordinated basis corresponding to Condition 3 (*Status and Subordination*)) under the Notes in place of the Issuer and procure that all action, conditions and things required to be taken, fulfilled and done (including the obtaining of any necessary consents) to ensure that the Substitution Documents represent valid, legally binding and enforceable obligations of the Substitute Issuer have been taken, fulfilled and done and are in full force and effect;

- (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 by the Substitute Issuer and/or such other provisions as may be necessary to ensure that each Holder has the benefit of an undertaking in terms corresponding to the provisions of Condition 8 (*Taxation*) in relation to the payment of all amounts due and payable under, or in respect of, the Notes and in relation to the guarantee referred to in clause (vi) below, with, in the case of the Notes but not such guarantee the substitution of references to the Former Residence with references to the New Residence, and an undertaking by the Substitute Issuer to indemnify each Holder against any Tax that is imposed on it by (or by any authority in or of) the New Residence and, if different, the jurisdiction of the Substitute Issuer's organisation with respect to any Note and that would not have been so imposed had the substitution not been made, as well as against any Tax, and any cost or expense, relating to such substitution;
  - (v) the Issuer and the Substitute Issuer have obtained all necessary governmental and other approvals and consents for such substitution and for the performance by the Substitute Issuer of its obligations under the Substitution Documents;
  - (vi) UBS Group AG has irrevocably and unconditionally guaranteed to the Holders, on a subordinated basis corresponding *mutatis mutandis* to Condition 3 (*Status and Subordination*), 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 on terms whereby Conditions 10 (*Events of Default*) and 11 (*Amendments*) apply to UBS Group AG and to its obligations under the guarantee with any necessary consequential amendment;
  - (vii) if the Substitute Issuer is not organised under the laws of Switzerland, the Substitute Issuer has appointed a process agent as its agent in Switzerland to receive service of process on its behalf in relation to any legal proceedings arising out of or in connection with the Notes;
  - (viii) the Substitute Issuer has appointed a Paying Agent in Switzerland that is a participant in the Intermediary; and
  - (ix) such substitution does not give rise to a Tax Event or a Regulatory Event.
- (b) Upon any substitution pursuant to clause (a) of this Condition 13, the Substitute Issuer will 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 will be released from its obligations under the Notes.

#### 14. **FURTHER ISSUES**

The Issuer may from time to time without the consent of the Holders issue further notes and, *provided* that such notes have the same terms and conditions as the Notes in all respects (or in all respects except for the issue date and/or first date on which interest is paid), such further notes will be consolidated and form a single series with the Notes. If the Issuer issues any such further

notes pursuant to this Condition 14, references in these Terms and Conditions to "**Notes**" include such further notes, unless the context otherwise requires.

15. **CURRENCY INDEMNITY**

Any amount received or recovered by any Holder in a currency other than USD (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 the Issuer or otherwise) under the Notes will only constitute a discharge of the Issuer to the extent of the amount in USD 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 USD with such amount on such date, on the first date on which it is practicable to do so). If the amount of USD that such Holder is able to purchase is less than the amount owed by the Issuer to such Holder under the Notes, the Issuer shall indemnify such Holder against any loss sustained by it as a result. In addition, the Issuer shall indemnify such Holder for the costs of making such purchase. For purposes of this Condition 15, it is sufficient for the relevant Holder to demonstrate that it would have suffered a loss had an actual purchase been made. The indemnities under this Condition 15 will (i) constitute a separate and independent obligation from the Issuer's other obligations hereunder, (ii) give rise to a separate and independent cause of action, (iii) apply irrespective of any indulgence granted by any Holder and (iv) continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any amount due under the Notes or any other judgment or order.

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

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

17. **NO CONVERSION**

Notwithstanding the powers of the FINMA under articles 25 *et seq.* of the FBA or pursuant to any successor or analogous Swiss law or regulation applicable to bank holding companies in Switzerland such as UBS Group AG, the Notes shall under no circumstances be converted into equity of the Issuer, and shall only absorb losses pursuant to these Terms and Conditions.

18. **GOVERNING LAW AND JURISDICTION**

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

### **USE OF PROCEEDS**

The net proceeds of the issue of the Notes, expected to amount to USD 1,234,375,000 after deduction of the commission incurred in connection the issue of the Notes, will be used by UBS Group AG to augment the regulatory capital base of the UBS Group.

## DESCRIPTION OF THE ISSUER

### 1. Overview

UBS Group AG with its subsidiaries (together, "**UBS Group**" or "**UBS**") draws on its over 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 leading universal bank in Switzerland, complemented by its Global Asset Management business and its Investment Bank, with a focus on capital efficiency and businesses that offer a superior structural growth and profitability outlook. Headquartered in Zurich, Switzerland, UBS has offices in more than 50 countries, including all major financial centers.

On 31 December 2014 UBS's common equity tier 1 capital ratio<sup>2</sup> was 13.4 per cent. on a fully applied basis and 19.5 per cent. on a phase-in basis, invested assets stood at CHF 2,734 billion, equity attributable to UBS Group AG shareholders was CHF 50,716 million and market capitalisation was CHF 63,526 million. On the same date, UBS employed 60,155 people<sup>3</sup>.

The rating agencies Standard & Poor's and Fitch Ratings have published credit ratings reflecting their assessment of the creditworthiness of UBS Group AG, i.e. its ability to fulfill in a timely manner payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing. The ratings from Fitch Ratings and Standard & Poor's may be attributed a plus or minus sign. These supplementary attributes indicate the relative position within the respective rating class. UBS Group AG has long-term senior debt ratings of BBB+ (stable outlook) from Standard & Poor's and A (stable outlook) from Fitch Ratings.

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

No profit forecasts or estimates are included in this document.

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

### 2. Corporate Information

The legal and commercial name of the Issuer is UBS Group AG.

The company was incorporated on 10 June 2014, when it was entered in the Commercial Register of Canton Zurich. The registration number is CHE 395.345.924. UBS Group AG has an unlimited duration.

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

According to article 2 of the Articles of Association of UBS Group AG, dated 10 February 2015 ("**Articles of Association**"), the purpose of UBS Group AG is to acquire, hold, manage and sell direct and indirect participations in enterprises of any kind, in particular in the area of banking, financial, advisory, trading and service activities in Switzerland and abroad.

The address and telephone number of UBS Group AG's registered office is: Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, telephone +41 44 234 1111.

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<sup>2</sup> Based on the Basel III framework, as applicable to Swiss systemically relevant banks. The common equity tier 1 capital ratio is the ratio of common equity tier 1 capital to risk-weighted assets. The information provided on a fully applied basis entirely reflects the effects of the new capital deductions and the phase out of ineligible capital instruments. The information provided on a phase-in basis gradually reflects those effects during the transition period. For information as to how common equity tier 1 capital is calculated, refer to the "Capital management" section of UBS Group AG's fourth quarter 2014 report.

<sup>3</sup> Full-time equivalents.

UBS Group AG shares are listed on the SIX Swiss Exchange and the New York Stock Exchange. By a decision dated 6 August 2014, the SIX Swiss Exchange exempted UBS Group AG from the requirement to provide three years' worth of audited accounts pursuant to article 11 section 1 of the Listing Rules of SIX Swiss Exchange (so called requirement for track record).

### 3. **Business Overview**

#### 3.1 ***Organizational Structure of UBS Group AG***

UBS Group AG is the parent company of UBS AG and the holding company of UBS. UBS operates as a group with five business divisions and a Corporate Center, which currently primarily operate out of UBS AG, through its branches worldwide. Businesses also operate through local subsidiaries where necessary or desirable.

UBS has announced that it intends to transfer by mid-2015 its Retail & Corporate business division and the Swiss-booked business within the Wealth Management business division to UBS Switzerland AG, a banking subsidiary of UBS AG in Switzerland.

In the UK, UBS has begun to implement a revised business and operating model for UBS Limited, which will enable UBS Limited to bear and retain a larger proportion of the risk and reward in its business activities.

In the US, to comply with new rules for foreign banks under the Dodd-Frank Wall Street Reform and Consumer Protection Act, UBS will designate an intermediate holding company by 1 July 2016 that will own all of UBS's US operations except US branches of UBS AG.

UBS may consider further changes to its legal structure in response to regulatory requirements. These structural changes are being discussed on an ongoing basis with FINMA and other regulatory authorities and remain subject to a number of uncertainties that may affect their feasibility, scope or timing. For more information, see "*Risk Factors – UBS has announced its intention to make certain structural changes in light of regulatory trends and requirements and the Terms and Conditions do not contain any restrictions on the Issuer's ability to restructure its business.*" above, and "*Recent Developments - The new legal structure of UBS Group and future structural changes*)" below.

For additional information on the structure of UBS Group, refer to UBS Group AG's fourth quarter 2014 report, published on 10 February 2015, on page 8. For additional information, refer to UBS AG's annual report as of 31 December 2013 published on 14 March 2014 (the "**Annual Report 2013**"), on pages 481-482 (inclusive) of the English version.

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

UBS operates as a group with five business divisions (Wealth Management, Wealth Management Americas, Retail & Corporate, Global Asset Management and the Investment Bank) and a Corporate Center. Each of the business divisions and the Corporate Center are described below. A description of UBS's strategy can be found in the Annual Report 2013, on pages 26-29 (inclusive) of the English version; a description of the businesses, strategies, clients, organizational structures, products and services of the business divisions and the Corporate Center can be found in the Annual Report 2013, on pages 33-49 (inclusive) of the English version.

##### (a) ***Wealth Management***

Wealth Management provides comprehensive financial services to wealthy private clients around the world - except those served by Wealth Management Americas. Its clients benefit from the entire spectrum of UBS resources, ranging from investment management to estate planning and corporate finance advice, in addition to specific wealth management products and services.

(b) *Wealth Management Americas*

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

(c) *Retail & Corporate*

Retail & Corporate maintains, in its own opinion, a leading position across retail, corporate and institutional client segments in Switzerland and constitutes a central building block of UBS Switzerland's pre-eminent (in its own opinion) universal bank model. It provides comprehensive financial products and services embedded in a true multi-channel experience, offering clients convenient access. It continues to enhance the range of life-cycle products and services offered to clients, while pursuing additional growth in advisory and execution services.

(d) *Global Asset Management*

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

(e) *Investment Bank*

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

(f) *Corporate Center*

The Corporate Center comprises Core Functions and the Non-core and Legacy Portfolio. Core Functions provides Group-wide control functions such as finance (including treasury services such as funding, balance sheet and capital management), risk control (including compliance) and legal. In addition, it provides all logistics and support functions including operations, information technology, human resources, regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, physical security, information security and offshoring. Core Functions allocates most of its treasury income, operating expenses and personnel associated with the abovementioned activities to the businesses. Non-core and Legacy Portfolio comprises the non-core businesses and legacy positions that used to be part of the Investment Bank.

### 3.3 *Competition*

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



### 3.4 **Recent Developments**

- (a) *UBS's results as of and for the quarter ended 31 December 2014, as presented in UBS Group AG's fourth quarter 2014 report (including unaudited interim consolidated financial information of UBS<sup>4</sup>)*

**UBS:** Net profit attributable to UBS Group AG shareholders for the fourth quarter of 2014 was CHF 963 million compared with CHF 762 million in the third quarter of 2014. UBS recorded an operating profit before tax of CHF 538 million compared with an operating loss of CHF 554 million, largely reflecting a CHF 1,222 million decrease in operating expenses driven by lower charges for litigation, regulatory and similar matters. Operating income declined by CHF 130 million, mainly due to lower net interest and trading income, partly offset by an increase in net fee and commission income. UBS recorded a net tax benefit of CHF 493 million compared with a net tax benefit of CHF 1,317 million in the prior quarter, mainly related to net upward revaluations of deferred tax assets in both quarters.

On an adjusted basis<sup>5</sup>, profit before tax was CHF 648 million compared with a loss of CHF 424 million in the prior quarter. Adjusted operating income decreased by CHF 207 million to CHF 6,656 million, mainly reflecting a decline of CHF 280 million in adjusted net interest and trading income, partly offset by an increase in net fee and commission income of CHF 123 million. Adjusted operating expenses decreased by CHF 1,279 million to CHF 6,008 million, due to CHF 1,660 million lower net charges for provisions for litigation, regulatory and similar matters, partly offset by CHF 434 million higher other non-personnel expenses, which included a charge of CHF 127 million for the annual UK bank levy.

**Wealth Management:** Profit before tax was CHF 646 million in the fourth quarter of 2014, a decrease of CHF 61 million compared with the third quarter. Adjusted<sup>5</sup> for restructuring charges, profit before tax decreased by CHF 73 million to CHF 694 million, due to CHF 47 million higher operating expenses and a CHF 27 million decline in operating income largely as a result of lower transaction-based income. The gross margin on invested assets declined by 4 basis points to 82 basis points. Net new money was CHF 3.0 billion compared with CHF 9.8 billion in the prior quarter.

**Wealth Management Americas:** Profit before tax was USD 217 million in the fourth quarter of 2014 compared with USD 254 million in the third quarter. Adjusted<sup>5</sup> for restructuring charges and credits related to changes to retiree benefit plans in the US in both quarters, profit before tax decreased to USD 233 million from USD 267 million, mainly due to higher operating expenses. Net new money increased to USD 5.5 billion compared with USD 4.9 billion in the prior quarter.

**Retail & Corporate:** Profit before tax was CHF 340 million in the fourth quarter of 2014 compared with CHF 426 million in the third quarter. Adjusted<sup>5</sup> for restructuring charges, profit before tax decreased by CHF 90 million to CHF 356 million, mainly due to CHF 33 million higher credit loss expenses and CHF 45 million higher operating expenses. The annualized net new business volume growth rate for the retail business was 0.6 per

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<sup>4</sup> The consolidated financial statements of UBS Group AG and its subsidiaries are prepared in accordance with IFRS. However, the interim financial statements included in the fourth quarter report 2014 have not been prepared in accordance with IAS 34, Interim Financial Reporting because they do not include a statement of cash flows and certain explanatory notes. This information will be included in UBS Group AG's annual Financial Statements for the period ended 31 December 2014. Under IAS 10 IFRS, events that occur subsequent to 31 December 2014 and prior to publication of the annual audited financial statements for the year ended 31 December 2014 may require adjustment to the amounts in the financial statements such as result in a changes in management's estimates of provisions for, among other items, litigation, regulatory and similar matters, compensation and benefits, and asset impairments. The recognition of such events in the audited financial statements may result in adjustments to UBS's published results for the quarter ended 31 December 2014.

<sup>5</sup> Unless otherwise indicated, fourth quarter 2014 "adjusted" figures exclude each of the following items, to the extent applicable, on a Group and business division level: an own credit gain of CHF 70 million, gains on sales of real estate of CHF 20 million, net restructuring charges of CHF 208 million and a credit of CHF 8 million related to changes to retiree benefit plans in the US. For the third quarter of 2014, the items excluded were an own credit gain of CHF 61 million, a loss of CHF 48 million related to the impairment of a financial investment available-for-sale, net restructuring charges of CHF 176 million and a credit of CHF 33 million related to changes to a retiree benefit plan in the US.

cent. compared with 1.7 per cent. in the prior quarter following the typical seasonal pattern.

*Global Asset Management:* Profit before tax was CHF 85 million in the fourth quarter of 2014 compared with CHF 154 million in the third quarter. Adjusted<sup>5</sup> for restructuring charges in both quarters and a credit related to changes to a retiree benefit plan in the US in the third quarter, profit before tax was CHF 124 million compared with CHF 151 million. The decrease was due to higher operating expenses, which included charges of CHF 21 million for provisions for litigation, regulatory and similar matters. Excluding money market flows, net new money outflows were CHF 5.8 billion compared with net inflows of CHF 3.8 billion in the prior quarter.

*Investment Bank:* The Investment Bank recorded an operating profit before tax of CHF 367 million compared with a loss of CHF 1,284 million in the third quarter. On an adjusted basis<sup>5</sup>, operating profit before tax was CHF 426 million compared with a loss of CHF 1,205 million, mainly due to CHF 1,663 million lower charges for provisions for litigation, regulatory and similar matters. Fully applied risk-weighted assets increased by CHF 5 billion to CHF 67 billion as of 31 December 2014.

*Corporate Center – Core Functions* recorded a loss before tax of CHF 387 million in the fourth quarter of 2014 compared with CHF 190 million in the prior quarter. The fourth quarter included total operating expenses remaining in Corporate Center – Core Functions after service allocations of CHF 269 million. Total operating income was negative CHF 117 million and included treasury income remaining in Corporate Center – Core Functions of negative CHF 201 million and an own credit gain of CHF 70 million. *Corporate Center – Non-core and Legacy Portfolio* recorded a loss before tax of CHF 725 million in the fourth quarter of 2014 compared with CHF 603 million in the prior quarter. The fourth quarter included losses of CHF 118 million in the Non-core rates portfolio from unwind and novation activity, a loss of CHF 108 million from the termination of certain credit default swap contracts in Legacy Portfolio as well as a charge of CHF 52 million for the annual UK bank levy. Risk-weighted assets decreased by CHF 6 billion to CHF 36 billion.

*Risk management and control:* UBS's reported credit exposures for the UBS Group were broadly un-changed. Net credit loss expenses for the quarter were CHF 60 million. The level of market risk remained low. In the Non-core and Legacy Portfolio, further progress was made in reducing risk, including continued novation of over-the-counter (OTC) derivatives to reduce counterparty risk, the exit of a substantial portion of UBS's remaining credit risk to monoline insurers, and disposal of all remaining student loan auction rate securities positions.

*Balance sheet:* As of 31 December 2014, UBS's balance sheet assets stood at CHF 1,062 billion, an increase of CHF 18 billion from 30 September 2014, mainly due to an increase in positive replacement values in the Investment Bank and currency effects resulting from the strengthening of the US dollar versus the Swiss franc. Funded assets, which represent total assets excluding positive replacement values and collateral delivered against over-the-counter derivatives, increased by CHF 7 billion to CHF 775 billion, also primarily resulting from currency effects. Excluding these currency effects, funded assets decreased by approximately CHF 7 billion.

*Liquidity and funding management:* UBS's liquidity and funding position remained strong during the fourth quarter of 2014. UBS did not issue any benchmark public bonds during the quarter, while several instruments in an amount equivalent to CHF 2.8 billion matured. Swiss SRB rules require UBS to maintain an LCR of at least 100 per cent. as of 1 January 2015 and to disclose actual LCR ratios on a quarterly basis from the first quarter of 2015 onwards.

*Capital management:* UBS's fully applied CET1 capital decreased by CHF 1.0 billion to CHF 29.1 billion as of 31 December 2014 and its fully applied CET1 capital ratio decreased 0.3 percentage points to 13.4 per cent. On a phase-in basis, CET1 capital increased by CHF 0.5 billion to CHF 43.0 billion and CET1 capital ratio increased 0.4

percentage points to 19.5 per cent. Risk-weighted assets decreased by CHF 3 billion to CHF 216 billion on a fully applied basis and by CHF 2 billion to CHF 221 billion on a phase-in basis. UBS's Swiss SRB leverage ratio decreased 0.1 percentage points to 4.1 per cent. on a fully applied basis and was stable at 5.4 per cent. on a phase-in basis.

(b) *The new legal structure of UBS Group and future structural changes*

During 2014, UBS established UBS Group AG as the holding company of the UBS Group. UBS Group AG was incorporated on 10 June 2014 as a wholly owned subsidiary of UBS AG. On 29 September 2014, UBS Group AG launched an offer to acquire all the issued ordinary shares of UBS AG in exchange for registered shares of UBS Group AG on a one-for-one basis. Following the exchange offer and subsequent private exchanges on a one-for-one basis with various shareholders and banks in Switzerland and elsewhere outside the United States, UBS Group AG acquired 96.68 per cent. of UBS AG shares by 31 December 2014. Further private exchanges have reduced the amount of outstanding UBS AG shares by 17.1 million and as a result UBS Group held 97.12 per cent. of UBS AG shares by 6 February 2015.

The establishment of a group holding company is intended, along with other measures already announced, to substantially improve the resolvability of the UBS Group in response to evolving "too-big-to-fail" regulatory requirements.

In Switzerland, UBS is progressing towards the transfer of its Retail & Corporate business division and the Swiss-booked business of its Wealth Management business division into UBS Switzerland AG by mid-2015. To comply with new rules for foreign banks in the US under the Dodd-Frank Wall Street Reform and Consumer Protection Act, UBS will designate an intermediate holding company by 1 July 2016 that will own all of its US operations except US branches of UBS AG. In the UK, UBS has begun to implement a revised business and operating model for UBS Limited, which will enable UBS Limited to bear and retain a larger proportion of the risk and reward in its business activities.

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

It is intended that the establishment of UBS Group AG as the holding company of the UBS Group along with its other announced measures will substantially enhance the resolvability of the UBS Group. UBS expects that the UBS Group will qualify for a rebate on the progressive buffer capital requirements, which should result in lower overall capital requirements. FINMA has confirmed that UBS's proposed measures are in principle suitable to warrant a rebate, although the amount and timing will depend on the actual execution of these measures and can therefore only be specified once all measures are implemented.

UBS may consider further changes to the UBS Group's legal structure in response to regulatory requirements, including to further improve the resolvability of the UBS Group, to respond to capital requirements, (as well as to seek any reduction in capital requirements the UBS Group may be entitled to), and to meet any other regulatory requirements regarding its legal structure. Such changes may include the transfer of operating subsidiaries of UBS AG to become direct subsidiaries of UBS Group AG, the transfer of shared service and support functions to service companies, and adjustments to the booking entity or location of products and services. These structural changes are being discussed on an ongoing basis with FINMA and other regulatory authorities and remain subject to a number of uncertainties that may affect their feasibility, scope or timing.

### 3.5 ***Trend Information***

As stated in the outlook statement presented in UBS Group AG's fourth quarter 2014 report, including unaudited interim consolidated financial information<sup>6</sup> of UBS issued on 10 February 2015, at the start of the first quarter of 2015, many of the underlying challenges and geopolitical issues that UBS has previously highlighted remain. The mixed outlook for global growth, the absence of sustained and credible improvements to unresolved issues in Europe, continuing US fiscal and monetary policy issues, increasing geopolitical instability and greater uncertainty surrounding the potential effects of lower and potentially volatile energy and other commodity prices would make improvements in prevailing market conditions unlikely. In addition, recent moves by the Swiss National Bank to remove the EUR / CHF floor and by the European Central Bank to increase its balance sheet expansion via quantitative easing have added additional challenges to the financial markets and to Swiss-based financial services firms specifically. The increased value of the Swiss franc relative to other currencies, especially the US dollar and the euro, and negative interest rates in the Eurozone and Switzerland will put pressure on UBS's profitability and, if they persist, on some of UBS's targeted performance levels. Despite ongoing and new challenges, UBS will continue to execute on its strategy in order to ensure the firm's long-term success and to deliver sustainable returns for shareholders.

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

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

UBS Group AG operates under a strict dual board structure. The Board of Directors ("**BoD**") decides on the strategy of UBS upon the recommendation of the Group Chief Executive Officer ("**Group CEO**"), and exercises the ultimate supervision over management, whereas the Group Executive Board ("**GEB**"), headed by the Group CEO, has executive management responsibility. The functions of Chairman of the BoD and Group CEO are assigned to two different people, ensuring a separation of power. This structure establishes checks and balances and preserves the institutional independence of the BoD from the day-to-day management of UBS, for which responsibility is delegated to the GEB under the leadership of the Group CEO.

No member of one board may be a member of the other. The supervision and control of the GEB remains with the BoD. The Articles of Association and the Organization Regulations of UBS Group AG with their annexes govern the authorities and responsibilities of the two bodies.

### 4.1 ***Board of Directors***

The BoD is the most senior body of UBS Group AG. The BoD consists of at least six and a maximum of twelve members. All the members of the BoD are elected individually by the Annual General Meeting of Shareholders ("**AGM**") for a term of office of one year, which expires after the completion of the next AGM. Shareholders also elect the Chairman and the members of the Human Resources and Compensation Committee. 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 Group AG shares are listed, if any, applying the strictest standard. The Chairman does not need to be independent.

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

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<sup>6</sup> The consolidated financial statements of UBS Group AG and its subsidiaries are prepared in accordance with IFRS. However, the interim financial statements included in the fourth quarter report 2014 have not been prepared in accordance with IAS 34, Interim Financial Reporting because they do not include a statement of cash flows and certain explanatory notes. This information will be included in UBS Group AG's annual Financial Statements for the period ended 31 December 2014.

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

(a) *Members of the Board of Directors*

<b>Member and business address</b>	<b>Title</b>	<b>Term of office</b>	<b>Current principal positions outside UBS Group AG</b>
Axel A. Weber  UBS Group AG, Bahnhofstrasse 45, CH- 8001 Zurich	Chairman	2015	Member of the board of the Swiss Finance Council, the Swiss Bankers Association, the Institute of International Finance and the International Monetary Conference; member of the European Banking Group, the European Financial Services Roundtable, the IMD Foundation Board in Lausanne, the Group of Thirty, Washington, D.C. and the Foundation Board of Avenir Suisse; research fellow at the Center for Economic Policy Research, London; senior research fellow at the Center for Financial Studies, Frankfurt/Main; member of the European Money and Finance Forum in Vienna and of the Monetary Economics and International Economics Councils of the leading association of German-speaking economists, the Verein für Socialpolitik; member of the Advisory Board of the German Market Economy Foundation and of the Advisory Board of the Department of Economics at the University of Zurich; member of the Board of Directors of the Financial Services Professional Board, Kuala Lumpur.
Michel Demaré  Syngenta International AG, Schwarzwaldallee 215, CH-4058 Basel	Independent Vice Chairman	2015	Chairman of the board of Syngenta, a member of the IMD Supervisory Board, Lausanne, and Chairman of SwissHoldings, Berne. Chairman of the Syngenta Foundation for Sustainable Agriculture. Member of the advisory board of the Department of Banking and Finance, University of Zurich. Member of the board of Louis-Dreyfus Commodities Holdings BV.

<b>Member and business address</b>	<b>Title</b>	<b>Term of office</b>	<b>Current principal positions outside UBS Group AG</b>
David Sidwell  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Senior Independent Director	2015	Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; unaffiliated board member of Gavi, the Vaccine Alliance; board member of Ace Limited; Chairman of the board of Village Care, New York; Director of the National Council on Aging, Washington D.C.
Reto Francioni  Deutsche Börse AG, D-60485 Frankfurt am Main	Member	2015	CEO of Deutsche Börse AG; chairman of the Supervisory Board of Eurex Zürich AG and Eurex Frankfurt AG, holds various mandates on the boards of Deutsche Börse Group subsidiaries. Professor at the University of Basel. Member of the Shanghai International Financial Advisory Committee, the Advisory Board of Moscow International Financial Center, the International Advisory Board of Institute de Empresa, the Steering Committee of the Project " <i>Role of Financial Services in Society</i> ", World Economic Forum, the Franco-German Roundtable, the Strategic Advisory Group of VHV Insurance.
Ann F. Godbehere  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2015	Board member and Chairperson of the Audit Committee of Prudential plc, Rio Tinto plc, Rio Tinto Limited. Member of the board of British American Tobacco plc.
Axel P. Lehmann  Zurich Insurance Group, Mythenquai 2, CH-8002 Zurich	Member	2015	Member of the Group Executive Committee, Group Chief Risk Officer and Regional Chairman Europe of Zurich Insurance Group, Zurich; Chairman of the board of Farmers Group, Inc., Los Angeles and of Zurich Insurance plc, Dublin; Chairman of the board of the Institute of Insurance Economics and member of the International and Alumni Advisory Board of the University of St. Gallen; former Chairman and member of the Chief Risk Officer Forum; board member of Economiesuisse;

<b>Member and business address</b>	<b>Title</b>	<b>Term of office</b>	<b>Current principal positions outside UBS Group AG</b>
			Chairman of the Global Agenda Council on the Global Financial System of World Economic Forum (WEF); member of the supervisory board of Zurich Beteiligungs AG, Frankfurt a.M.; Chairman of the board of trustees of the Pension Plans 1 and 2 of the Zurich Insurance Group.
Helmut Panke  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2015	Member of the board and Chairperson of the Regulatory and Public Policy Committee of Microsoft Corporation; member of the board and Chairperson of the Safety & Risk Committee of Singapore Airlines Ltd.; member of the Supervisory Board of Bayer AG.
William G. Parrett  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2015	Member of the board and Chairperson of the Audit Committee of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc.; member of the board of IGATE Corporation. Past Chairman of the board of the United States Council for International Business and of United Way Worldwide; member of the Carnegie Hall Board of Trustees. Member of the Committee on Capital Markets Regulation.
Isabelle Romy  Froriep, Bellerivestrasse 201, CH-8034 Zurich	Member	2015	Partner at Froriep, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; member and Vice Chairman of the Sanction Commission of the SIX Swiss Exchange.
Beatrice Weder di Mauro  Johannes Gutenberg-University Mainz, Jakob Welder-Weg 4, D-55099 Mainz	Member	2015	Professor at the Johannes Gutenberg University, Mainz; member of the board of Roche Holding Ltd., Basel, and Robert Bosch GmbH, Stuttgart. Member of the Corporate Governance Commission of the German Government; member of the senate of Max Planck Society; member of the Global Agenda Council on Sovereign Debt of the WEF; member of the economic advisory board of Fraport AG;

Member and business address	Title	Term of office	Current principal positions outside UBS Group AG
			member of the advisory board of Deloitte Germany; Deputy Chairman of the University Council of the University of Mainz.
Joseph Yam  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2015	Executive Vice President of the China Society for Finance and Banking. Distinguished research fellow of the Institute of Global Economics and Finance at the Chinese University of Hong Kong; member of the board of Community Chest of Hong Kong; member of the International Advisory Council of China Investment Corporation. Member of the board of Johnson Electric Holdings Limited and of UnionPay International Co., Ltd.

UBS Group AG's Board of Directors has announced that it will nominate Jes Staley for election to the Board at the annual general meeting of shareholders on 7 May 2015.

(b) *Organizational principles and structure*

Following each AGM, the BoD will meet to appoint its Vice Chairmen, Senior Independent Director, the BoD committee members (other than the members of the Human Resources and Compensation Committee) and their respective Chairpersons. At the same meeting, the BoD will appoint a Company Secretary, who will act 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 an ad-hoc committee on strategy.

(c) *Audit Committee*

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

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

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

The AC reviews the annual and quarterly financial statements of UBS Group AG and UBS, as well as the consolidated annual report of UBS, as proposed by management,



with the external auditors and Group Internal Audit in order to recommend their approval (including any adjustments the AC considers appropriate) to the BoD.

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

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

## 4.2 **Group Executive Board**

### (a) *Members of the Group Executive Board*

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

<b>Member and business address</b>	<b>Function</b>
Sergio P. Ermotti  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Executive Officer
Markus U. Diethelm  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Group General Counsel
Lukas Gähwiler  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer UBS Switzerland,  Chief Executive Officer Retail & Corporate
Ulrich Körner  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer Global Asset Management,  Chief Executive Officer UBS Group EMEA
Philip J. Lofts  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Risk Officer
Robert J. McCann  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer Wealth Management Americas,  Chief Executive Officer UBS Group Americas
Tom Naratil	Group Chief Financial Officer,

<b>Member and business address</b>	<b>Function</b>
UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Operating Officer
Andrea Orcel  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer Investment Bank
Chi-Won Yoon  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer UBS Group Asia Pacific
Jürg Zeltner  UBS Group AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer Wealth Management

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

#### 4.3 **Potential Conflicts of Interest**

Members of the BoD and GEB may act as directors or executive officers of other companies (for current principal positions outside UBS Group AG, if any, of BoD members, please see section 4.1 above) and may have economic or other private interests that differ from those of UBS Group AG. Potential conflicts of interest may arise from these positions or interests. UBS Group AG is confident that its internal corporate governance practices and its compliance with relevant legal and regulatory provisions reasonably ensure that any conflicts of interest of the type described above are appropriately managed, including through disclosure when appropriate.

#### 5. **Auditors**

Upon incorporation of UBS Group AG, Ernst & Young Ltd., Aeschengraben 9, CH-4002 Basel ("**Ernst & Young**") have been appointed as auditors of the Issuer. Based on article 39 of the Articles of Association, UBS Group AG's shareholders will elect the auditors for a term of office of one year, with the first election to take place at the AGM on 7 May 2015.

Ernst & Young have been elected as auditors of both the standalone and the consolidated financial statements of UBS AG by UBS AG's shareholders at the annual general meetings held on 7 May 2014, 2 May 2013 and 3 May 2012.

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

#### 6. **Major Shareholders of UBS Group AG**

Under the Swiss Federal Act on Stock Exchanges and Securities Trading of 24 March 1995, as amended (the "**Swiss Stock Exchange Act**"), anyone holding shares in a company listed in Switzerland, or holding 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 threshold percentages: 3, 5, 10, 15, 20, 25, 33 1/3, 50 or 66 2/3 per cent. of the voting rights, whether or not such rights may be exercised.

The following are the most recent notifications of third-party holdings in UBS Group AG's share capital filed in accordance with the Swiss Stock Exchange Act, based on UBS Group AG's

registered share capital at the time of the disclosure: (i) 15 January 2015, BlackRock Inc., New York, 4.89 per cent.; (ii) 10 December 2014, the Government of Singapore, Singapore, as beneficial owner of GIC Private Limited, 7.07 per cent.; (iii) 10 December 2014, Norges Bank (the Central Bank of Norway), Oslo, 3.30 per cent.

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

As of 31 December 2014, the following shareholders (acting in their own name or in their capacity as nominees for other investors or beneficial owners) were registered in the share register with 3 per cent. or more of the total share capital of UBS Group AG: Chase Nominees Ltd., London (9.05 per cent.); GIC Private Limited, Singapore (6.61 per cent.); the US securities clearing organization DTC (Cede & Co.) New York, "The Depository Trust Company" (5.76 per cent.); and Nortrust Nominees Ltd., London (3.52 per cent.).

UBS Group AG's own shares are held primarily to hedge employee share and option participation plans. In addition, the Investment Bank holds a limited number of UBS Group AG shares in its capacity as a liquidity provider to the equity index futures market and as a market-maker in UBS Group AG shares and derivatives on UBS Group AG shares. Furthermore, to meet client demand, UBS has issued structured debt instruments linked to UBS Group AG shares, which are economically hedged by cash-settled derivatives and, to a limited extent, own shares held by the Investment Bank. As of 31 December 2014, UBS held 87,871,737 UBS Group AG's shares, corresponding to 2.4 per cent. of the total issued share capital of UBS Group AG as of the same date.

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

### **7.1 Historical Annual Financial Information**

UBS Group AG (consolidated) is considered to be the continuation of UBS AG (consolidated). The description of UBS AG's (consolidated) assets and liabilities, financial position and profits and losses for financial year 2012 is available in the financial information section of the annual report of UBS AG as of 31 December 2012 ("**Annual Report 2012**"), and for financial year 2013 is available in the Financial information section of the Annual Report 2013. UBS Group AG's financial year is the calendar year.

UBS AG's Annual Report 2013 and Annual Report 2012 include the audited consolidated financial statements of UBS AG, prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. The Financial information section of the Annual Report 2013 and Annual Report 2012 also includes certain additional disclosures required under US Securities and Exchange Commission regulations. The Annual Report 2013 and Annual Report 2012 also include discussions and analysis of the financial and business results of UBS AG (consolidated), the business divisions and the Corporate Center.

## 7.2 *Auditing of Historical Annual Financial Information*

The consolidated financial statements of UBS AG were audited by Ernst & Young. The reports of the auditors on the consolidated financial statements can be found on pages 321-322 (inclusive) of the Annual Report 2012 and on pages 348-349 (inclusive) of the Annual Report 2013 (Financial information section, English version).

There are no qualifications in the auditors' reports on the audited consolidated financial statements of UBS AG for the years ended on 31 December 2012 and 31 December 2013, which are incorporated by reference into this document.

## 7.3 *Interim Financial Information*

Reference is also made to UBS Group AG's fourth quarter 2014 report, which contains information on the financial condition and the results of operation of UBS Group AG and UBS as of and for the quarter ended on 31 December 2014 and as of and for the year ended 31 December 2014. The interim financial statements are not audited.

## 7.4 *Litigation, Regulatory and Similar Matters*

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

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. There are also situations where UBS may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which UBS believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. UBS makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that UBS has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to select matters could be significant.

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

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

With respect to certain litigation, regulatory and similar matters for which UBS has established provisions, it is able to estimate the expected timing of outflows. However, the aggregate amount

of the expected outflows for those matters for which it is able to estimate expected timing is immaterial relative to its current and expected levels of liquidity over the relevant time periods.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 12a to the unaudited interim consolidated financial information included in UBS Group AG's fourth quarter 2014 report. It is not practicable to provide an aggregate estimate of liability for UBS's litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require UBS to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although UBS therefore cannot provide a numerical estimate of the future losses that could arise from the class of litigation, regulatory and similar matters, it believes that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. Among other things, the non-prosecution agreement ("**NPA**") described in section 7 of this section 7.4, which UBS entered into with the US Department of Justice, Criminal Division, Fraud Section ("**DOJ**") in connection with its submissions of benchmark interest rates, including among others the British Bankers' Association London Interbank Offered Rate ("**LIBOR**"), may be terminated by the DOJ if UBS commits any US crime or otherwise fails to comply with the NPA, and the DOJ may obtain a criminal conviction of UBS in relation to the matters covered by the NPA. See paragraph 7 of this section for a description of the NPA. A guilty plea to, or conviction of, a crime (including as a result of termination of the NPA) could have material consequences for UBS. Resolution of regulatory proceedings may require UBS to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations and may permit financial market utilities to limit, suspend or terminate UBS's participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining UBS's capital requirements. Information concerning UBS's capital requirements and the calculation of operational risk for this purpose is included in the "*Capital management*" section of UBS Group AG's fourth quarter 2014 report.

**Provisions for litigation, regulatory and similar matters by segment<sup>1</sup>**

	<b>Wealth Manage- ment</b>	<b>Wealth Manage- ment Americas</b>	<b>Retail &amp; Corporate</b>	<b>Global Asset Manage- ment</b>	<b>Investment Bank</b>	<b>CC - Core Functions</b>	<b>CC - Non-core and Legacy Portfolio</b>	<b>UBS</b>
<i>CHF million</i>								
<b>Balance as of 31 December 2013 .....</b>	165	56	82	3	22	488	808	1,622
<b>Balance as of 30 September 2014 .....</b>	192	182	93	37	1,712	296	959	3,469
Increase in provisions recognized in the income statement.....	9	38	0	21	28	17	196	309
Release of provisions recognized in the income statement.....	(7)	(2)	0	0	(4)	0	(119)	(132)
Provisions used in conformity with designated purpose..	(7)	(17)	(1)	(5)	(643)	0	(136)	(810)
Foreign currency translation / unwind of discount.....	1	9	0	0	32	0	41	83
<b>Balance as of 31 December 2014 .....</b>	<b>188</b>	<b>209</b>	<b>92</b>	<b>53</b>	<b>1,124</b>	<b>312</b>	<b>941</b>	<b>2,919</b>

<sup>1</sup> Provisions, if any, for the matters described in (a) item 4 of this section are recorded in Wealth Management, (b) item 6 of this section are recorded in Wealth Management Americas, (c) items 10 and 11 of this section are recorded in the Investment Bank, (d) items 3 and 9 of this section are recorded in Corporate Center – Core Functions and (e) items 2 and 5 of this section are recorded in Corporate Center – Non-core and Legacy Portfolio. Provisions, if any, for the matters described in items 1 and 8 of this section are allocated between Wealth

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

Tax and regulatory authorities in a number of countries have made inquiries, served requests for information or examined employees located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. It is possible that implementation of automatic tax information exchange and other measures relating to cross-border provision of financial services could give rise to further inquiries in the future.

As a result of investigations in France, in May and June 2013, respectively, UBS (France) S.A. and UBS AG were put under formal examination ("mise en examen") for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance ("témoin assisté") regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. In July 2014, UBS AG was placed under formal examination with respect to the potential charges of laundering of proceeds of tax fraud, for which it had been previously declared witness with legal assistance, and the investigating judges ordered UBS to provide bail ("caution") of EUR 1.1 billion. UBS appealed the determination of the bail amount. In September 2014 the appeal court ("**Cour d'Appel**") upheld the initial determination of the bail amount and UBS subsequently posted the bail amount. UBS has further appealed the determination of the bail amount to the French Supreme Court ("Cour de Cassation"), which rejected the appeal in December 2014. UBS intends to challenge the judicial process in the European Court of Human Rights. Separately, in June 2013, the French banking supervisory authority's disciplinary commission reprimanded UBS (France) S.A. for having had insufficiencies in its control and compliance framework around its cross-border activities and "know your customer" obligations. It imposed a penalty of EUR 10 million, which was paid.

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

UBS's balance sheet at 31 December 2014 reflected provisions with respect to matters described in this item 1 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

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

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

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

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

*RMBS-related lawsuits concerning disclosures:* UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits related to approximately USD 13 billion in original face amount of RMBS underwritten or issued by UBS. Of the USD 13 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 3 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitization trust and made representations and warranties about those loans (UBS-sponsored RMBS). The remaining USD 10 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter (third-party RMBS).

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

UBS is also named as a defendant in several cases asserting fraud and other claims brought by entities that purchased collateralized debt obligations that had RMBS exposure and that were arranged or sold by UBS.

*Loan repurchase demands related to sales of mortgages and RMBS:* When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust. UBS has been notified by certain institutional purchasers of mortgage loans and RMBS of their contention that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. The table "Loan repurchase demands by year received – original principal balance of loans" summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 3 February 2015. In the table, repurchase demands characterized as "Demands resolved in litigation" and "Demands rescinded by counterparty" are considered to be finally resolved. Repurchase demands in all other categories are not finally resolved.

**Loan repurchase demands by year received – original principal balance of loans<sup>1</sup>**

	2006 - 2008	2009	2010	2011	2012	2013	2014	2015, through 3 February	Total
(USD Million)									
<b>Resolved demands</b>									
Actual or agreed loan repurchases / make whole payments by UBS....	12	1							13
Demands rescinded by counterparty .....	110	104	19	303	237				773
Demands resolved in litigation .....	1	21							21
<b>Demands expected to be resolved by third parties</b>									

Demands resolved or expected to be resolved through enforcement of indemnification rights against third-party originators .....	77	2	45	107	99	72	403
<b>Demands in dispute</b>							
Demands in litigation...		346	732	1,041			2,118
Demands in review by UBS .....			2				3
Demands rebutted by UBS but not yet rescinded by counterparty .....	1	2	1	18	519	260	801
<b>Total.....</b>	<b>122</b>	<b>205</b>	<b>368</b>	<b>1,084</b>	<b>618</b>	<b>332</b>	<b>4,133</b>

<sup>1</sup> Loans submitted by multiple counterparties are counted only once.

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

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

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

*Law suits related to contractual representations and warranties concerning mortgages and RMBS:* In 2012, certain RMBS trusts filed an action ("**Trustee Suit**") in the US District Court for the Southern District of New York (Southern District of New York) seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations ("**Transactions**") with an original principal balance of approximately USD 2 billion for which Assured Guaranty Municipal Corp. ("**Assured Guaranty**"), a financial guaranty insurance company, had previously demanded repurchase. Plaintiffs in the Trustee Suit have recently indicated that they intend to seek damages beyond the loan repurchase demands identified in the complaint, specifically for all loans purportedly in breach of representations and warranties in any of the three Transactions. In January 2015, the court rejected plaintiffs' efforts to seek broader damages and limited plaintiffs to pursuing claims based solely on alleged breaches of loans identified in the complaint or other breaches that plaintiffs can establish were independently discovered by UBS. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. Related litigation brought by Assured Guaranty was resolved in 2013.

In 2012, the Federal Housing Finance Agency, on behalf of Freddie Mac, filed a notice and summons in New York Supreme Court initiating suit against UBS RESI for breach



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

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

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

As reflected in the table "Provision for claims related to sales of residential mortgage-backed securities and mortgages," UBS's balance sheet at 31 December 2014 reflected a provision of USD 849 million with respect to matters described in this section 2. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

*Mortgage-related regulatory matters:* In August 2014, UBS received a subpoena from the US Attorney's Office for the Eastern District of New York issued pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("**FIRREA**"), which seeks documents and information related to UBS's RMBS business from 2005 through 2007. UBS has also been responding to a subpoena from the New York State Attorney General ("**NYAG**") relating to its RMBS business. In September 2014, the Commonwealth of Virginia filed an action in intervention in Virginia state court against UBS and several other financial institutions alleging violations of the Virginia Fraud Against Taxpayers Act and asserting claims of fraud and constructive fraud in connection with the Virginia Retirement System's purchases of certain RMBS. In addition, UBS has also been responding to inquiries from both the Special Inspector General for the Troubled Asset Relief Program ("**SIGTARP**") (who is working in conjunction with the US Attorney's Office for Connecticut and the DOJ) and the SEC relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through the present. UBS is cooperating with the authorities in these matters. Numerous other banks reportedly are responding to similar inquiries from these authorities.

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

	<u>USD million</u>
Balance as of 31 December 2013 .....	817
Balance as of 30 September 2014 .....	915
Increase in provision recognized in the income statement .....	120
Release of provision recognized in the income statement .....	(120)
Provision used in conformity with designated purpose .....	(66)
Balance as of 31 December 2014 .....	<u>849</u>

3. *Claims related to UBS disclosure*

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

4. *Madoff*

In relation to the Bernard L. Madoff Investment Securities LLC ("**BMIS**") investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority ("**FINMA**") and the Luxembourg Commission de Surveillance du Secteur Financier ("**CSSF**"). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without however being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals were filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In the US, the BMIS Trustee filed claims in 2010 against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. The total amount claimed against all defendants in these actions was not less than USD 2 billion. Following a motion by UBS, in 2011, the US District Court for the Southern District of New York dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In 2013, the Second Circuit affirmed the District Court's decision and, in June 2014, the US Supreme Court denied the BMIS Trustee's petition seeking review of the Second Circuit ruling. In December 2014, several claims, including a purported class action, were filed in the US by BMIS customers against UBS entities, asserting claims similar to the ones made by the BMIS Trustee, seeking unspecified damages. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds. In January 2015, a court of appeal reversed a lower court decision in favour of UBS in one such case and ordered UBS to pay EUR 49 million, plus interest. UBS intends to appeal the decision.

5. *Kommunale Wasserwerke Leipzig GmbH ("KWL")*

In 2006, KWL entered into a single-tranche collateralized debt obligation/credit default swap ("STCDO/CDS") transaction with UBS, with latter legs being intermediated in 2006 and 2007 by Landesbank Baden-Württemberg ("LBBW") and Depfa Bank plc ("Depfa"). KWL retained UBS Global Asset Management to act as portfolio manager under the STCDO/CDS. UBS and the intermediating banks terminated the STCDO/CDS following non-payment by KWL under the STCDOs. UBS claimed payment of approximately USD 319.8 million, plus interest, from KWL, Depfa and LBBW.

In 2010, UBS (UBS AG, UBS Limited and UBS Global AM) issued proceedings in London against KWL, Depfa and LBBW seeking declarations and/or to enforce the terms of the STCDO/CDS contracts, and each of KWL, Depfa and LBBW filed counterclaims. Judgment was given in November 2014, following a three-month trial. The Court ruled that UBS cannot enforce the STCDO/CDS entered into with KWL, LBBW or Depfa, which have been rescinded, granted the fraudulent misrepresentation claims of LBBW and Depfa against UBS, and ruled that UBS Global Asset Management breached its duty in the management of the underlying portfolios. The Court dismissed KWL's monetary counterclaim against UBS. The majority of the premiums paid to KWL and the fees paid to LBBW and Depfa under the transactions have been returned to UBS and UBS has returned monies received under the transaction from Depfa. UBS has been ordered to pay part of the other parties' costs in the proceedings. UBS has applied to the Court of Appeal for permission to appeal the judgment.

In separate proceedings brought by KWL against LBBW in Leipzig, Germany, the court ruled in LBBW's favour in June 2013 and upheld the validity of the STCDO as between LBBW and KWL. KWL has appealed against that ruling and, in December 2014, the appeal court stayed the appeal proceedings following the judgment and UBS's request for permission to appeal in the proceedings in London. KWL and LBBW have been given permission by the London trial judge to make applications to recover their costs in the German proceedings as damages from UBS in the English proceedings after the German proceedings conclude.

In 2011 and 2013, the former managing director of KWL and two financial advisers were convicted in Germany on criminal charges related to certain KWL transactions, including swap transactions with UBS. All three have lodged appeals.

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

UBS's balance sheet at 31 December 2014 reflected provisions with respect to matters described in this section 5 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

6. *Puerto Rico*

Declines since August 2013 in the market prices of Puerto Rico municipal bonds and of closed-end funds (the "**funds**") that are sole-managed and co-managed by UBS Trust Co. of Puerto Rico and distributed by UBS Financial Services Inc. of Puerto Rico ("**UBS PR**") have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages exceeding USD 1.1 billion. The claims are filed by clients in Puerto Rico who own the funds or Puerto Rico municipal bonds and/or who used their UBS account assets as collateral for UBS non-purpose

loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the funds and of the loans. A shareholder derivative action also was filed in February 2014 against various UBS entities and current and certain former directors of the funds, alleging hundreds of millions in losses in the funds. In May 2014, a federal class action complaint was filed against various UBS entities, certain members of UBS PR senior management, and the co-manager of certain of the funds seeking damages for investor losses in the funds during the period from May 2008 through May 2014.

An internal review also disclosed that certain clients, many of whom acted at the recommendation of one financial advisor, invested proceeds of non-purpose loans in closed-end fund securities in contravention of their loan agreements.

In October 2014 UBS reached a settlement with the Office of the Commissioner of Financial Institutions for the Commonwealth of Puerto Rico ("**OCFI**") in connection with OCFI's examination of UBS's operations from January 2006 through September 2013. Pursuant to the settlement UBS will among other things contribute USD 3.5 million to an investor education fund and will offer USD 1.68 million in restitution to certain investors.

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico ("**System**") against over 40 defendants, including UBS PR and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. UBS is named in connection with its underwriting and consulting services. In 2013, the case was dismissed by the Puerto Rico Court of First Instance on the grounds that plaintiffs did not have standing to bring the claim. That dismissal was subsequently overturned by the Puerto Rico Court of Appeals. UBS's petitions for appeal and reconsideration have been denied by the Supreme Court of Puerto Rico.

Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in 2012. Beginning in 2012 two federal class action complaints, which were subsequently consolidated, were filed against various UBS entities, certain of the funds, and certain members of UBS PR senior management, seeking damages for investor losses in the funds during the period from January 2008 through May 2012 based on allegations similar to those in the SEC action. Plaintiffs in that action and the federal class action filed in May 2014 described above are now seeking to have those two actions consolidated.

UBS's balance sheet at 31 December 2014 reflected provisions with respect to matters described in this item 6 in amounts that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that UBS has recognized.

7. *Foreign exchange, LIBOR, and benchmark rates*

*Foreign exchange-related regulatory matters:* Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes its precious metals and related structured products businesses. Since then, various authorities have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, the Swiss Competition Commission ("**WEKO**"),

the DOJ, the US Commodity Futures Trading Commission ("CFTC"), the Federal Reserve Board, the UK Financial Conduct Authority ("FCA") (to which certain responsibilities of the UK Financial Services Authority ("FSA") have passed), the UK Serious Fraud Office ("SFO"), the Australian Securities and Investments Commission ("ASIC") and the Hong Kong Monetary Authority ("HKMA"). WEKO stated in March 2014 that it had reason to believe that certain banks may have colluded to manipulate foreign exchange rates. A number of authorities also reportedly are investigating potential manipulation of precious metals prices. UBS and other financial institutions have received requests from various authorities relating to their foreign exchange businesses, and UBS is cooperating with the authorities. UBS has taken and will take appropriate action with respect to certain personnel as a result of its ongoing review.

In November 2014, UBS reached settlements with the FCA and the CFTC in connection with their foreign exchange investigations, and FINMA issued an order concluding its formal proceedings with respect to UBS relating to its foreign exchange and precious metals businesses. UBS has paid a total of approximately CHF 774 million to these authorities, including GBP 234 million in fines to the FCA, USD 290 million in fines to the CFTC, and CHF 134 million to FINMA representing confiscation of costs avoided and profits. The conduct described in the settlements and the FINMA order includes certain UBS personnel: engaging in efforts, alone or in cooperation/collusion with traders at other banks, to manipulate FX benchmark rates involving multiple currencies, attempts to trigger client stop-loss orders for the benefit of the bank, and inappropriate sharing of confidential client information. UBS has ongoing obligations to cooperate with these authorities and to undertake certain remediation, including actions to improve processes and controls and requirements imposed by FINMA to apply compensation restrictions for certain employees and to automate at least 95 per cent. of UBS's global foreign exchange and precious metals trading by 31 December 2016. Investigations by numerous authorities, including the DOJ, the Federal Reserve Board and the CFTC, remain ongoing notwithstanding these resolutions.

In December 2014, the HKMA announced the conclusion of its investigation into foreign exchange trading operations of banks in Hong Kong. The HKMA found no evidence of collusion among the banks or of manipulation of foreign exchange benchmark rates in Hong Kong. The HKMA also found that banks had internal control deficiencies with respect to their foreign exchange trading operations.

Some other investigating authorities have initiated discussions of possible terms of a resolution of their investigations. Resolutions may include findings that UBS engaged in attempted or actual misconduct and failed to have controls in relation to its foreign exchange business that were adequate to prevent misconduct. Authorities may impose material monetary penalties, require remedial action plans or impose other non-monetary penalties. In connection with discussions of a possible resolution of investigations relating to UBS's foreign exchange business with the Antitrust and Criminal Divisions of the DOJ, UBS and the DOJ have extended the term of the NPA by one year to 18 December 2015. No agreement has been reached on the form of a resolution with the Antitrust or Criminal Divisions of the DOJ. It is possible that other investigating authorities may seek to commence discussions of potential resolutions in the near future. UBS is not able to predict whether any such discussion will result in a resolution of these matters, whether any resolution will be on terms similar to those described above, or the monetary, remedial and other terms on which any such resolution may be achieved.

*Foreign exchange-related civil litigation:* Several putative class actions have been filed since November 2013 in US federal courts against UBS and other banks. These actions are on behalf of putative classes of persons who engaged in foreign currency and precious metals transactions. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. In January 2015, the court denied the motion to dismiss filed by the defendants (including UBS).

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

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, USD 500 million in fines to the DOJ, and CHF 59 million in disgorgement to FINMA. UBS Securities Japan Co. Ltd. ("**UBSSJ**") entered into a plea agreement with the DOJ under which it entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. UBS entered into an NPA with the DOJ, which (along with the plea agreement) covered conduct beyond the scope of the conditional leniency / immunity grants described below, required UBS to pay the USD 500 million fine to DOJ after the sentencing of UBSSJ, and provided that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. The conduct described in the various settlements and the FINMA order includes certain UBS personnel: engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions; colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions; and giving inappropriate directions to UBS submitters that were in part motivated by a desire to avoid unfair and negative market and media perceptions during the financial crisis. The benchmark interest rates encompassed by one or more of these resolutions include Yen LIBOR, GBP LIBOR, CHF LIBOR, Euro LIBOR, USD LIBOR, EURIBOR (Euro Interbank Offered Rate) and Euroyen TIBOR (Tokyo Interbank Offered Rate). UBS has ongoing obligations to cooperate with authorities with which UBS has reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions. In addition, under the NPA, UBS has agreed, among other things, that for two years from 18 December 2012 UBS will not commit any US crime, and UBS will advise DOJ of any potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. Any failure to comply with these obligations could result in termination of the NPA and potential criminal prosecution in relation to the matters covered by the NPA. The MAS, HKMA, ASIC and the Japan Financial Services Agency have all resolved investigations of UBS (and in some cases other banks). The orders or undertakings in connection with these investigations generally require UBS to take remedial actions to improve its processes and controls, impose monetary penalties or other measures. Investigations by the CFTC, ASIC and other governmental authorities remain ongoing notwithstanding these resolutions. In October 2014, UBS reached a settlement with the European Commission ("**EC**") regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives and has paid a EUR 12.7 million fine, which was reduced to this level based in part on UBS's cooperation with the EC.

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

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

*LIBOR and other benchmark-related civil litigation:* A number of putative class actions and other actions are pending in, or expected to be transferred to, the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives linked directly or indirectly to US dollar LIBOR, Yen LIBOR, Euroyen TIBOR, EURIBOR and US Dollar ISDAFIX. Also pending are actions asserting losses related to various products whose interest rate was linked to US dollar LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including LIBOR, Euroyen TIBOR, EURIBOR or US Dollar ISDAFIX rates and seek unspecified compensatory and other damages, including treble and punitive damages, under varying legal theories that include violations of the US Commodity Exchange Act ("CEA"), the federal racketeering statute, federal and state antitrust and securities laws and other state laws. In February 2015, a punitive class action was filed in federal court in New York against UBS and other financial institutions on behalf of parties who entered into interest rate derivatives linked to Swiss franc (CHF) LIBOR. Plaintiffs allege that defendants conspired to manipulate CHF LIBOR and the prices of CHF LIBOR-based derivatives from 1 January 2005 through 31 December 2009 in violation of US antitrust laws and the CEA, among other theories, and seek unspecified compensatory damages, including treble damages. In 2013, a federal court in New York dismissed the federal antitrust and racketeering claims of certain US dollar LIBOR plaintiffs and a portion of their claims brought under the CEA and state common law. The court has granted certain plaintiffs permission to assert claims for unjust enrichment and breach of contract against UBS and other defendants, and limited the CEA claims to contracts purchased between 15 April 2009 and May 2010. Certain plaintiffs have also appealed the dismissal of their antitrust claims. UBS and other defendants in other lawsuits including the one related to Euroyen TIBOR have filed motions to dismiss. In March 2014, the court in the Euroyen TIBOR lawsuit dismissed the plaintiff's federal antitrust and state unfair enrichment claims, and dismissed a portion of the plaintiff's CEA claims. Discovery is currently stayed.

Since September 2014, putative class actions have been filed in federal court in New York and New Jersey against UBS and other financial institutions, among others, on behalf of parties who entered into interest rate derivative transactions linked to ISDAFIX. The complaints, which have since been consolidated into an amended complaint, allege that the defendants conspired to manipulate ISDAFIX rates from 1 January 2006 through January 2014, in violation of US antitrust laws and the CEA, among other theories, and seeks unspecified compensatory damages, including treble damages.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, UBS's balance sheet at 31 December 2014 reflected a

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

8. *Swiss retrocessions*

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

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

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

UBS's balance sheet at 31 December 2014 reflected a provision with respect to matters described in this item 8 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence, as in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

9. *Banco UBS Pactual tax indemnity*

Pursuant to the 2009 sale of Banco UBS Pactual S.A. ("**Pactual**") by UBS to BTG Investments, LP ("**BTG**"), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately BRL 2.3 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. The majority of these assessments relate to the deductibility of goodwill amortization in connection with UBS's 2006 acquisition of Pactual and payments made to Pactual employees through various profit sharing plans. These assessments are being challenged in administrative proceedings. In May 2014, UBS was notified that the administrative court had rendered a decision in favour of the taxpayer, Pactual, in connection with a profit sharing plan assessment relating to an affiliate company. That decision became final in October 2014. In August 2014, UBS was notified that the administrative court had rendered a decision that was largely in favour of the tax authority with respect to the goodwill amortization assessment. UBS is awaiting a written decision from the administrative court for this matter, at which time an appeal will be taken. In 2013 and 2014, approximately BRL 163 million in tax claims relating to the period for which UBS has indemnification obligations, and for which UBS established provisions, were submitted for settlement through amnesty programs announced by the Brazilian government.

10. *Matters relating to the CDS market*



In 2013 the EC issued a Statement of Objections against thirteen credit default swap ("CDS") dealers including UBS, as well as data service provider Markit and the International Swaps and Derivatives Association ("ISDA"). The Statement of Objections broadly alleges that the dealers infringed European Union antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and 2009. UBS submitted its response to the Statement of Objections in January 2014 and presented its position in an oral hearing in May 2014. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. In January and April 2014, putative class action plaintiffs filed consolidated amended complaints in the Southern District of New York against twelve dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act and common law. Plaintiffs allege that the defendants unlawfully conspired to restrain competition in and / or monopolize the market for CDS trading in the US in order to protect the dealers' profits from trading CDS in the over-the-counter market. Plaintiffs assert claims on behalf of all purchasers and sellers of CDS that transacted directly with any of the dealer defendants since 1 January 2008, and seek unspecified trebled compensatory damages and other relief. In September 2014, the court granted in part and denied in part defendants' motions to dismiss the complaint.

#### 11. *Equities trading systems and practices*

UBS is responding to inquiries concerning the operation of UBS's alternative trading system ("ATS") (also referred to as a dark pool) and its securities order routing and execution practices from various authorities, including the SEC, the NYAG and the Financial Industry Regulatory Authority, who reportedly are pursuing similar investigations industry-wide. In January 2015, the SEC announced the resolution of its investigation concerning the operation of UBS's ATS between 2008 and 2012, which focused on certain order types and disclosure practices that were discontinued two years ago. Under the SEC settlement order, which charges UBS with, among other things, violations of Section 17(a)(2) of the Securities Act of 1933 and Rule 612 of Regulation NMS (known as the sub-penny rule), UBS has paid a total of USD 14.5 million, which includes a fine of USD 12 million and disgorgement of USD 2.4 million. UBS is cooperating in the ongoing regulatory matters, including by the SEC.

#### 7.5 ***Material Contracts***

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

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

Except as otherwise disclosed in this Listing Prospectus or in the documents incorporated by reference, there has been no significant change in the financial or trading position of UBS or of UBS Group AG since 31 December 2014.

Except as otherwise disclosed in this Listing Prospectus or in the documents incorporated by reference, there has been no material adverse change in the prospects of UBS Group AG or UBS since 10 June 2014 and 31 December 2013, respectively.

#### 8. **Share Capital**

As reflected in its Articles of Association most recently registered with the Commercial Register of Zurich, UBS Group AG has (i) fully paid and issued share capital of CHF 372,871,045.70, divided into 3,728,710,457 registered shares with a par value of CHF 0.10 each (article 4), (ii) at any time until 26 November 2016, authorized capital in the amount of CHF 11,585,045.60 comprising 115,850,456 fully paid registered shares with a par value of CHF 0.10, for the

purpose (1) of acquiring shares in UBS AG, Zurich and Basel, with shares of UBS Group AG, or (2) financing or re-financing any acquisition for cash of shares in UBS AG, Zurich and Basel, howsoever structured (article 4b); and (iii) conditional capital in the amount of CHF 51,620,031.20, corresponding to a maximum of 516,200,312 registered shares with a par value of CHF 0.10 each (article 4a).

## 9. **Contributions in kind**

In connection with the share-for-share exchange offer in order to establish UBS Group AG as the holding company of UBS Group, and subsequent private exchanges on a one-for-one basis with various shareholders and banks in Switzerland and elsewhere outside the United States, UBS Group AG has conducted the following capital increases against contributions in kind on 26 November 2014, 16 December 2014 and 10 February 2015:

### 9.1 ***Capital increases of 26 November 2014:***

In connection with the capital increase and the agreements dated 26 November 2014, UBS Group AG has acquired from:

- UBS AG, acting as contributor in kind and exchange agent in its own name but for account of the shareholders of UBS AG, who have tendered their shares in the course of the public exchange offer of UBS Group AG, 3,183,370,731 shares of UBS AG with par value of CHF 0.10 each and a total value of CHF 32,718,731,974.95. In return, UBS Group AG has issued 3,183,370,731 registered shares in UBS Group AG with a par value of CHF 0.10 each to UBS AG.
- UBS Securities LLC, 1285 Avenue of the Americas, New York, NY 10019, US, acting as contributor in kind and exchange agent in its own name but for account of the shareholders of UBS AG, who have tendered their shares in the course of the public exchange offer of UBS Group AG, 201,494,824 shares of UBS AG with a par value of CHF 0.10 each and a total value of CHF 2,070,966,814.07. In return, UBS Group AG has issued 201,494,824 registered shares in UBS Group AG with a par value of CHF 0.10 each to UBS Securities LLC, 1285 Avenue of the Americas, New York, NY 10019, US.
- UBS AG, acting as contributor in kind in its own name and in relation to shares tendered during the initial offer period in the course of the public exchange offer of UBS Group AG, 90,490,886 shares of UBS AG with a par value of CHF 0.10 each and a total value of CHF 1,533,820,517.70. In return, UBS Group AG has issued 90,490,886 registered shares in UBS Group AG with a par value of CHF 0.10 each to UBS AG.

### 9.2 ***Capital increases of 16 December 2014:***

In connection with the capital increase and the agreements dated 16 December 2014, UBS Group AG has acquired from:

- UBS AG, acting as contributor in kind in its own name but for account of the shareholders of UBS AG, who (i) have tendered their shares in the course of the public exchange offer of UBS Group AG or (ii) have offered their registered shares for a private exchange under the terms of this public exchange offer, 229,042,914 shares of UBS AG with a par value of CHF 0.10 each and a total value of CHF 2,244,527,510.81. In return, UBS Group AG has issued 229,042,914 registered shares in UBS Group AG with a par value of CHF 0.10 each to UBS AG.
- UBS Securities LLC, 1285 Avenue of the Americas, New York, NY 10019, US, acting as contributor in kind in its own name but for account of the shareholders of UBS AG, who have tendered their shares in the course of the public exchange offer of UBS Group AG, 12,510,852 shares of UBS AG with a par value of CHF 0.10 each and a total value of CHF 122,601,267.19. In return, UBS Group AG has issued 12,510,852 registered shares in UBS Group AG with a par value of CHF 0.10 each to UBS Securities LLC, 1285 Avenue of the Americas, New York, NY 10019, US.

9.3 ***Capital increases of 10 December 2015:***

In connection with the authorized capital increase and the agreements dated 10 February 2015, UBS Group AG has acquired from UBS AG, acting as contributor in kind in its own name but for account of the shareholders of UBS AG, who have offered their registered shares after the expiry of the public exchange offer of UBS Group AG for a private exchange under terms in compliance with the best price rule, 11,800,250 shares of UBS AG with a par value of CHF 0.10 each and a total value of CHF 130,476,501.09. In Return, UBS Group AG has issued 11,800,250 registered shares in UBS Group AG with a par value of CHF 0.10 each to UBS AG.

10. **Conditional and authorized share capital of UBS Group AG**

10.1 ***Conditional capital***

According to article 4a of its Articles, UBS Group AG currently has conditional capital in an aggregate amount of CHF 51,620,031.20, corresponding to a maximum of 516,200,312 shares. Of these shares, 380,000,000 shares are available to satisfy any conversion rights and/or warrants in connection with convertible bonds or similar financial instruments and 136'200,312 shares are available for employee option plans.

Article 4a of the Articles provides as follows:

*"Article 4a – Conditional capital*

The share capital may be increased by a maximum of CHF 13,620,031.20 through the issuance of a maximum of 136,200,312 fully paid registered shares with a par value of CHF 0.10 each upon exercise of employee options issued to employees and members of the management and of the Board of Directors of UBS Group AG and its subsidiaries. The preemptive rights and the advance subscription rights of the shareholders shall be excluded. The issuance of these options to employees and members of the management and of the Board of Directors of UBS Group AG and its subsidiaries will take place in accordance with the plan rules issued by the Board of Directors and its compensation committee. The acquisition of shares through the exercise of option rights as well as every subsequent transfer of these shares shall be subject to the registration requirements set forth in Article 5 of the Articles of Association.

The share capital may be increased in an amount not to exceed CHF 38,000,000 by the issuance of up to 380,000,000 fully paid registered shares with a nominal value of CHF 0.10 each through the voluntary or mandatory exercise of conversion rights and/or warrants granted in connection with the issuance of bonds or similar financial instruments by UBS Group AG or one of its group companies on national or international capital markets. The preemptive rights of the shareholders shall be excluded. The then current owners of conversion rights and/or warrants shall be entitled to subscribe for the new shares. The conditions of the conversion rights and/or warrants shall be determined by the Board of Directors. The acquisition of shares through voluntary or mandatory exercise of conversion rights and/or warrants, as well as each subsequent transfer of the shares, shall be subject to the registration requirements set forth in Article 5 of the Articles of Association. In connection with the issuance of convertible bonds or bonds with warrants or similar financial instruments, the Board of Directors shall be authorized to restrict or exclude the advance subscription rights of shareholders if such instrument is issued (i) on national or international capital markets or (ii) to one or more financial investors. If the advance subscription rights are restricted or excluded by the Board of Directors, the following shall apply: the issuance of such instrument shall be made at prevailing market conditions, and the new shares shall be issued pursuant to the relevant conditions of that financial instrument. Conversion rights may be exercised during a maximum 10-year period, and warrants may be exercised during a maximum 7-year period, in each case from the date of the respective issuance. The issuance of the new shares upon voluntary or mandatory exercise of conversion rights and/or warrants shall be made at conditions taking into account the market price of the shares and/or comparable instruments with a market price at the time of the issuance of the relevant financial instrument."

## 10.2 ***Authorized capital***

As of 10 February 2015, UBS Group AG has authorized capital in the amount of CHF 11,585,045.60, corresponding to 115,850,456 shares.

Article 4b of the Articles provides as follows:

### *"Article 4b – Authorized share capital for acquisition purposes*

The Board of Directors is authorized, at any time until 26 November 2016, to increase the share capital by a maximum of CHF 11,585,045.60 by issuing up to 115,850,456 fully paid registered shares with a par value of CHF 0.10, for the purpose (i) of acquiring shares in UBS AG with shares of UBS Group AG, or (ii) financing or refinancing any acquisition for cash of shares in UBS AG, howsoever structured, including in connection with an exchange offer, a squeeze-out pursuant to the Stock Exchange Act, a squeeze-out merger or through on-exchange or off-exchange purchases.

Increases through firm underwriting or in partial amounts are permitted. The date of issue, issue price, type of contribution (including a contribution or acquisition in kind) and starting date for the entitlement to dividends shall be determined by the Board of Directors. The Board of Directors may exclude subscription rights that have not been exercised from the capital increase, sell them at market terms or use them otherwise in the interest of UBS Group AG.

The subscription rights of the shareholders shall be excluded, and the Board of Directors is authorized to allocate them to individual shareholders or third parties.

The newly issued shares are subject to the restrictions on registration in accordance with Article 5. "

## 11. **Dividends**

Due to the fact that UBS Group AG has been incorporated and entered into the Commercial Register of the Canton of Zurich only on 10 June 2014, UBS Group AG has not yet paid any dividends since its incorporation.

## 12. **Documents on Display**

- The Annual Report of UBS AG as of 31 December 2012, comprising the sections (1) Operating environment and strategy, (2) Financial and operating performance, (3) Risk, treasury and capital management, (4) Corporate governance, responsibility and compensation, (5) Financial information (including the "Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements" and the "Report of the statutory auditor on the financial statements");
- The Annual Report of UBS AG as of 31 December 2013, comprising the sections (1) Operating environment and strategy, (2) Financial and operating performance, (3) Risk, treasury and capital management, (4) Corporate governance, responsibility and compensation, (5) Financial information (including the "Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements" and the "Report of the statutory auditor on the financial statements");
- UBS AG's first, second and third quarter 2014 reports;
- UBS Group AG's fourth quarter 2014 report; and
- The Articles of Association of UBS Group AG,

shall be maintained in printed format, for free distribution, at the offices of UBS Group AG for a period of twelve months after the publication of this document. In addition, the annual and quarterly reports of UBS Group AG and UBS AG are published on UBS's website, at

[www.ubs.com/investors](http://www.ubs.com/investors) or a successor address. The Articles of Association of UBS Group AG are also available on UBS's Corporate Governance website, at [www.ubs.com/governance](http://www.ubs.com/governance).

## TAXATION

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

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

### Switzerland

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

#### ***Withholding Tax***

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

On 17 December 2014, the Swiss Federal Council issued draft legislation, which, if enacted, may require a paying agent in Switzerland to deduct Swiss withholding tax at a rate of 35 per cent. on any payment of interest in respect of a debt security to an individual resident in Switzerland or to a person resident outside of Switzerland. If this legislation or similar legislation were enacted and an amount of, or in respect of, Swiss withholding tax were to be deducted or withheld from that payment, it is possible that neither the Issuer nor the Substitute Issuer nor any paying agent nor any other person would pursuant to the terms of the Notes be obliged to pay additional amounts with respect to any debt security as a result of the deduction or imposition of such withholding tax.

#### ***Stamp Taxes***

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

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

#### ***Income Taxation on Principal or Interest***

##### ***(i) Notes held by non-Swiss holders***

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

(ii) *Notes held by Swiss holders as private assets*

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

(iii) *Notes held as Swiss business assets*

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

### **Foreign Final Withholding Tax**

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

### **EU Savings Tax**

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

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

### **FATCA**

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

The Issuer is a foreign financial institution ("**FFI**") for the purposes of FATCA. If the Issuer is required, or agrees, to provide certain information about its account holders pursuant to a FATCA agreement with the US Internal Revenue Service (i.e. the Issuer is a "**Participating FFI**") then withholding may be triggered if: (i) payments on the Notes are classified as "foreign passthru payments" for purposes of

FATCA and (ii) (a) an investor does not provide information sufficient for the relevant Participating FFI to determine whether the investor is a US person or should otherwise be treated as holding a "United States Account" of the Issuer, (b) an investor does not consent, where necessary, to have its information disclosed to the IRS or (c) any FFI that is an investor, or through which payment on the Notes is made, is not a Participating FFI or otherwise exempt from being withheld upon under FATCA.

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

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

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

There is a grandfathering rule that generally exempts payments made with respect to obligations that are classified as indebtedness for US federal income purposes that are issued before the date that is six months after the publication of regulations defining the term foreign passthru payment. However, the terms of the Notes make it uncertain that they will be classified as indebtedness for these purposes.



## SUBSCRIPTION AND SALE

UBS Limited, Barclays Bank PLC, Danske Bank A/S, RBC Europe Limited, Scotiabank Europe plc, Skandinaviska Enskilda Banken AB, SMBC Nikko Capital Markets Limited, The Royal Bank of Scotland plc and Wells Fargo Securities International Limited (together the "**Joint Lead Managers**") have, in a subscription agreement dated 18 February 2015 (the "**Subscription Agreement**") and made between the Issuer and the Joint Lead Managers upon the terms and subject to the conditions contained therein, jointly and severally agreed to subscribe for the Notes at their issue price of 100 per cent. of their principal amount plus accrued interest, if any, in respect thereof and less the commission. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

### United Kingdom

Each Joint Lead Manager has represented, warranted and undertaken that:

- (a) 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 the Notes in circumstances in which Section 21(1) of the FSMA does not or would not, if it was not an authorised person, apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### United States of America

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

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

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

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

### Japan

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

## Singapore

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

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

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

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

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

## Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that:

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

## People's Republic of China

The Joint Lead Managers have acknowledged that the Listing Prospectus, or the Notes or any material or information contained or incorporated by reference in this Listing Prospectus relating to the Notes, have not been, and will not be submitted to become, approved/verified by or registered with any relevant government authorities under the PRC law. Accordingly the Notes may not be offered or sold directly or indirectly in the PRC and this Listing Prospectus may not be supplied to the public in the PRC or used in connection with any offer for subscription or sale of the Notes in the PRC directly or indirectly. The material or information contained or incorporated by reference in this Listing Prospectus relating to the Notes does not constitute an offer to sell or the solicitation of an offer to buy any securities by any person in the PRC. The Notes may only be offered or sold to PRC investors that are authorised to engage in the purchase of Notes of the type being offered or sold.

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

## EEA

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

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Joint Lead Manager or Joint Lead Managers nominated by the Issuer for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

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

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

## General

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

## GENERAL INFORMATION

### 1. **Approval, Listing and Admission to Trading**

The Notes have been provisionally admitted to trading on the SIX Swiss Exchange from 19 February 2015. The last trading day is expected to be the second dealing day prior to the date on which the Notes are fully redeemed or the Write-down Date, as applicable, in accordance with the Terms and Conditions of the Notes. Application has been made for the Notes to be listed on the SIX Swiss Exchange.

In accordance with article 43 of the Listing Rules of the SIX Swiss Exchange, the Issuer has appointed UBS AG as its representative to lodge the listing application for the Notes with the SIX Swiss Exchange.

The Issuer was incorporated on 10 June 2014. Therefore, it does not fulfil the requirements in respect of the duration and the annual financial statements according to article 11 and 12 of the Listing Rules of the SIX Swiss Exchange. However, the SIX Swiss Exchange granted the Issuer an exemption from the aforementioned requirements.

### 2. **Authorisations**

The creation and issue of the Notes has been authorised by the Group Chief Financial Officer of the Issuer dated 17 February 2015.

### 3. **Material Change**

Except as otherwise disclosed in this Listing Prospectus or in the documents incorporated by reference, there has been no material change in the Issuer's assets and liabilities, financial position or profits and losses since 31 December 2014.

### 4. **Legal and Arbitration Proceedings**

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

### 5. **Clearing**

The Notes have been accepted for clearance through SIX SIS. The ISIN is CH0271428317, the common code is 119312477 and the Swiss Security Number is 27142831.

### 6. **Joint Lead Managers transacting with the Issuer**

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

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

7. **Foreign Language**

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

8. **Listing Prospectus**

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

9. **Publications and Notices**

The Swiss Commercial Gazette (*Schweizerisches Handelsamtsblatt*) is the official medium for publication of notices and announcements by UBS Group AG. The BoD may elect further media for publication of notices and announcements.

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