



Tier 2 capital (Basel III-compliant, progressive buffer capital)

Issuer	UBS AG Jersey Branch
ISIN	XS0747231362
Issue Date	22.02.2012
Currency	USD
Nominal (million)	2,000.0
Coupon Rate	7.25% ¹
Maturity Date	22.02.2022
First Call Date	22.02.2017

¹ Rate subject to change after first call date.

Terms and Conditions of the Tier 2 Subordinated Notes

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

1. DEFINITIONS

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

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

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

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

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

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

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

“**Bankruptcy Event**” means any of the following events with respect to UBS AG: (i) the adjudication of bankruptcy (*Konkurseröffnung*) pursuant to article 171, 189 or 191 DEBA, (ii) the granting of a provisional or definitive stay of execution (*provisorische oder definitive Nachlassstundung*) pursuant to article 293 et seq. of the DEBA, (iii) the ordering of restructuring proceedings (*Sanierungsverfahren*) pursuant to article 28 to 32 FBA, (iv) the ordering of liquidation proceedings (*Liquidation*) pursuant to article 33 to 37g FBA and/or (v) the ordering of any proceeding referred to in article 8 (Meaning of bankruptcy) of the Interpretation (Jersey) Law, 1954; *provided, however*, that none of the following shall constitute a Bankruptcy Event: (x) mere debt collection proceedings (*Betriebsverfahren*) pursuant to article 38 et seq. DEBA, (y) proceedings in connection with a freezing order (*Arrestverfahren*) pursuant to article 271 et seq. DEBA, and/or (z) the institution of protective measures (*Schutzmassnahmen*) pursuant to article 26 FBA, including, in the case of each of clauses (x), (y) and (z), any steps taken under or in connection therewith.

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

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

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

“**BIS Tier 1 Capital**” means, as of any Balance Sheet Date, the aggregate amount, in Swiss francs, of items that constitute tier 1 capital of the Group as of such Balance Sheet Date, less any deductions from tier 1 capital

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required to be made, in each case, as determined by UBS AG pursuant to the BIS Regulations applicable to UBS AG as of such Balance Sheet Date. For the avoidance of doubt, the term “tier 1 capital” as used in this definition shall have the meaning assigned to such term in the BIS Regulations in effect as of the relevant Balance Sheet Date.

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

“**Calculation Agent**” means The Bank of New York Mellon, acting through its London branch, in its capacity as calculation agent for the Notes, and includes any successor to The Bank of New York Mellon, acting through its London branch, in its capacity as Calculation Agent.

“**Call Date**” means 22 February 2017.

“**Certification**” means the delivery to the Fiscal Agent of an appropriate confirmation issued by Euroclear and/or Clearstream, Luxembourg as to non-US beneficial ownership of the relevant Notes.

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

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

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

“**Clearstream, Luxembourg**” means Clearstream Banking, *société anonyme*, Luxembourg.

“**Common Depositary**” means The Bank of New York Mellon, acting through its London branch, or any successor bank duly licensed in a member state of the European Union, as appointed by the Intermediaries from time to time;

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

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

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

“**Core Tier 1 Capital**” means, as of any Balance Sheet Date, the BIS Tier 1 Capital as of such Balance Sheet Date, less the Hybrid Tier 1 Capital as of such Balance Sheet Date, as determined by UBS AG, and as (i) disclosed as “BIS core tier 1 capital” in the Quarterly Financial Accounts published on the relevant Ordinary Publication Date or (ii) may be disclosed as a component of the Reviewed Interim Measurement published upon the instruction of the FINMA on the relevant Extraordinary Publication Date, as applicable.

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“**Core Tier 1 Ratio**” means, as of any Balance Sheet Date, the Core Tier 1 Capital as of such Balance Sheet Date, divided by the BIS Risk Weighted Assets as of such Balance Sheet Date, expressed as a percentage, such ratio (or the components thereof) as determined by UBS AG, and (i) as disclosed in the Quarterly Financial Accounts published on the relevant Ordinary Publication Date or (ii) constituting (or as disclosed in) the Reviewed Interim Measurement published upon the instruction of the FINMA on the relevant Extraordinary Publication Date, as applicable.

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

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

“**Definitive Notes**” has the meaning assigned to such term in Condition 2 (*Amount and Denomination; Form and Transfer*).

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

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

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

“**Euroclear**” means Euroclear Bank S.A./N.V.

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

“**Exchange Date**” has the meaning assigned to such term in Condition 2 (*Amount and Denomination; Form and Transfer*).

“**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.

“**Final Global Note**” has the meaning assigned to such term in Condition 2 (*Amount and Denomination; Form and Transfer*).

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

“**Fiscal Agent**” means The Bank of New York Mellon, acting through its London branch, as fiscal agent for the Notes, and includes any successor to The Bank of New York Mellon, acting through its London branch, in its capacity as Fiscal Agent appointed in accordance with the terms of the Agency Agreement.

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

“**Global Note**” has the meaning assigned to such term in Condition 2 (*Amount and Denomination; Form and Transfer*).

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

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

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

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

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

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

“**Holder**” means, with respect to any Note, (i) so long as the Notes are represented by a Global Note deposited with the Common Depository for the Intermediaries, 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, and (ii) if Definitive Notes are printed, the bearer of the relevant Definitive Note.

“**Hybrid Tier 1 Capital**” means, as of any Balance Sheet Date, the aggregate amount, in Swiss francs, of items that constitute hybrid tier 1 capital of the Group as of such Balance Sheet Date, as determined by UBS AG pursuant to the National Regulations applicable to UBS AG as of such Balance Sheet Date, and as (i) disclosed as “hybrid tier 1 capital” in the Quarterly Financial Accounts published on the relevant Ordinary Publication Date or (ii) may be disclosed as a component of the Reviewed Interim Measurement published upon the instruction of the FINMA on the relevant Extraordinary Publication Date, as applicable.

“**Initial Global Note**” has the meaning assigned to such term in Condition 2 (*Amount and Denomination; Form and Transfer*).

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

“**Interest Rate**” means (i) from (and including) the Issue Date to (and excluding) the Call Date, 7.25 per cent. per annum, and (ii) from (and including) the Call Date, the rate per annum equal to the sum of 6.061 per cent. and the Mid Market Swap Rate.

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“**Intermediaries**” 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 22 February 2012.

“**Issuer**” means UBS AG, acting through its Jersey branch.

“**Issuing Branch Substitution**” has the meaning assigned to such term in Condition 15 (*Substitution*).

“**Junior Obligations**” means (i) all unsecured, subordinated, direct or indirect, undated obligations of UBS AG, (ii) all other unsecured, subordinated, direct or indirect obligations of UBS AG that are expressed to rank junior to the Issuer’s obligations under the Notes and (iii) all classes of share capital of UBS AG.

“**Maturity Date**” means 22 February 2022.

“**Mid Market Swap Rate**” means the mid market U.S. dollar swap rate Libor basis having a five-year maturity appearing on Bloomberg page “ISDA 01” (or such other page as may replace such page on Bloomberg, or such other page as may be nominated by the person providing or sponsoring the information appearing on such page for purposes of displaying comparable rates) at 11:00 a.m. (New York time) on the date falling two Business Days prior to the Call Date, as determined by the Calculation Agent. If such swap rate does not appear on such page (or such other page or service), the Mid Market Swap Rate shall instead be determined by the Calculation Agent on the basis of (i) quotations provided by the principal office of each of four major banks in the U.S. dollar swap rate market of the rates at which swaps in U.S. dollars are offered by it at approximately 11.00 a.m. (New York time) on the date falling two Business Days prior to the Call Date to participants in the U.S. dollar swap rate market for a five-year period and (ii) the arithmetic mean expressed as a percentage and rounded, if necessary, to the nearest 0.001 per cent. (0.0005 per cent. being rounded upwards) of such quotations.

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

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

“**New Residence**” has the meaning assigned to such term in Condition 15 (*Substitution*).

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

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

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

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

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

“Permitted Transactions” means:

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

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

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

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

“Quarterly Financial Accounts” means the financial statements of the Group (including the notes thereto) in respect of a calendar quarter reporting period, which have been reviewed by the Auditor in accordance with the International Standard on Auditing and are contained in a customary financial report published by UBS AG.

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

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

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

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

“Relevant Date” means, with respect to any payment, (i) the date on which such payment first becomes due under these Terms and Conditions (the “Scheduled Due Date”), or (ii) if the full amount of the moneys payable on the Scheduled Due Date has not been received by the Fiscal Agent on or before the Scheduled Due Date, the date on which notice to the effect that the full amount of the money due on the Scheduled Due Date has been received by the Fiscal Agent is published in accordance with these Terms and Conditions.

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

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

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

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

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

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

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

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

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

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

“**Tax Jurisdiction**” means Jersey and/or Switzerland.

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

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

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

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

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

“**Trigger Core Tier 1 Ratio**” means, as of any Publication Date, (i) the sum of (x) the Core Tier 1 Capital as of the relevant Balance Sheet Date and (y) the High-Trigger Amount as of such Publication Date, divided by (ii) the BIS Risk Weighted Assets as of the relevant Balance Sheet Date, expressed as a percentage.

“**Trigger Event**” has the meaning assigned to such term in Condition 6 (*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 Relevant Trigger Capital Ratio as of such Publication Date is less than the Write-down Threshold, and (y) a Contingent Write-down will take place and (ii) specifying the date on which the Contingent Write-down will take place, which date shall, subject to postponement pursuant to clause (b)(ii) of Condition 6 (*Contingent Write-down*), be no later than 10 Business Days after the date of such notice (the “**Trigger Event Write-down Date**”).

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

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“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 Viability Event Write-down Date or the Trigger Event Write-down Date, as applicable.

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

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

“Write-down Threshold” means five percent.

2. AMOUNT AND DENOMINATION; FORM AND TRANSFER

(a) Amount and Denomination

The initial aggregate principal amount of the Notes will be USD 2,000,000,000. The Notes will be issued in minimum denominations of USD 200,000 each and integral multiples of USD 1,000 in excess thereof.

(b) Global Note in Bearer Form

The Notes and all rights in connection therewith will be documented:

- (i) with respect to all Notes in respect of which the Fiscal Agent has not or not yet received Certification, in the form of an initial global note (the “**Initial Global Note**”), which shall be in bearer form and deposited on the Issue Date by the Fiscal Agent with the Common Depository for Euroclear and Clearstream, Luxembourg (the “**Intermediaries**”) until the earliest of (x) redemption of the Notes, (y) cancellation of the Initial Global Note following the issuance of a Write-down Notice or (z) cancellation of the Initial Global Note following a reduction of the principal amount of Notes represented thereby to zero; and
- (ii) with respect to all Notes in respect of which the Fiscal Agent has received Certification, in the form of a final global note (the “**Final Global Note**” and, together with the Initial Global Note, the “**Global Notes**”), which shall be in bearer form and deposited on the Issue Date by the Fiscal Agent with the Common Depository for the Intermediaries until the earliest of (x) redemption of the Notes, (y) cancellation of the Final Global Note following the issuance of a Write-down Notice, or (z) printing of Definitive Notes,

provided, however, that all Notes shall be represented by the Initial Global Note until the day following the expiry of 40 days after the date of issue of the Initial Global Note (the “**Exchange Date**”), after which date and following Certification in relation to the relevant Notes, such Notes will be represented by the Final Global Note.

Once the Initial Global Note is deposited with the Common Depository for the Intermediaries and entered into the accounts of one or more participants of the Intermediaries, the Notes will constitute intermediated securities (*Bucheffekten*) (“**Intermediated Securities**”) in accordance with the provisions of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*).

Subject to applicable law, each Holder shall have a quotal co-ownership interest (*Miteigentumsanteil*) in the relevant Global Note to the extent of its claim against the Issuer; *provided, however*, that, for so long as the relevant Global Note remains deposited with the Common Depository for the Intermediaries, the

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co-ownership interest shall be suspended and the Notes may only be transferred by the entry of the transferred Notes in a securities account of the transferee.

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

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

(c) *Conditional Payment of Principal and Interest on Notes Represented by Initial Global Note*

All claims for payment in respect of Notes represented by the Initial Global Note shall be conditional upon Certification (*bedingte Zahlungsverpflichtung*). Accordingly, payments of principal, interest or other amounts in respect of Notes represented by the Initial Global Note shall only be due or payable upon Certification having been obtained by the Fiscal Agent in relation to the relevant Notes.

(d) *Definitive Notes in Bearer Form*

No physical delivery of the Notes shall be made unless and until definitive Notes (*Wertpapiere*) in bearer form (“**Definitive Notes**”) are printed. In respect of Notes represented by the Final Global Note only, Definitive Notes may be printed, in whole, but not in part, at the request of the bearer of the Final Global Note if:

- (i) printing of the Definitive Notes is required by Swiss or other applicable laws or regulations in connection with the enforcement of rights of Holders; or
- (ii) each of the Intermediaries is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention to permanently cease business; or
- (iii) any of the Global Notes is no longer deposited with the Common Depository for the Intermediaries,

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

Whenever the Final Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with interest coupons (“**Coupons**”) attached, in an aggregate principal amount equal to the principal amount of the Final Global Note to the bearer of the Final Global Note against the surrender of the Final Global Note at the Specified Office of the Fiscal Agent within 30 days of the bearer requesting such exchange. Definitive Notes will be issued in denominations of USD 200,000 and integral multiples of USD 1,000 in excess thereof, up to and including USD 399,000. No Notes in definitive form will be issued with a denomination above USD 399,000.

If the Notes are represented by Definitive Notes, title to the Notes and the Coupons will pass by delivery, and any request for payment of any amount due in respect of any Definitive Notes or Coupons require presentation thereof to the Issuer or a Paying Agent.

3. STATUS AND SUBORDINATION

(a) *Status*

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

(b) *Subordination*

In the event of (i) a Bankruptcy Event or (ii) an order being made, or an effective resolution being passed, for the liquidation or winding-up of UBS AG (except, in any such case, a solvent liquidation or winding-up of UBS AG solely for the purposes of a reorganization, reconstruction or amalgamation of UBS AG or the substitution in place of UBS AG of a successor in business to UBS AG, the terms of which reorganization, reconstruction, amalgamation or substitution (x) (except in the case of any such substitution pursuant to Condition 15 (*Substitution*)) have previously been approved by a resolution of the Holders in accordance with Condition 14 (*Meetings of Holders*) and (y) do not provide that the Notes shall become redeemable in accordance with these Terms and Conditions), the rights and claims of the Holders against the Issuer in respect of or arising under (including, without limitation, any damages awarded for breach of any obligation under) the Notes shall, subject to any obligations that are mandatorily preferred by law, rank (A) junior to the rights and claims of all holders of Senior Obligations, (B) *pari passu* with the rights and claims of holders of Parity Obligations and (C) senior to the rights and claims of holders of Junior Obligations.

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

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

4. INTEREST

(a) *Interest*

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

- (i) the Notes shall bear interest on their principal amount at the applicable Interest Rate from and including the Issue Date (A) if the Notes are early redeemed pursuant to clause (b), (c), (d) or (e) of Condition 5 (*Redemption and Purchase*), to and excluding the applicable Early Redemption Date, or (B) otherwise, to and excluding the Maturity Date; *provided, however*, that if (upon due presentation thereof where presentation is required) payment with respect to any Note is improperly withheld or refused on such Early Redemption Date or the Maturity Date, as the case may be, interest shall continue to accrue on the principal amount of such Note (both before and after judgment) at the applicable Interest Rate to (but excluding) the Relevant Date; and
- (ii) interest on the Notes will be payable annually in arrear on 22 February of each year (each, an “**Interest Payment Date**”), commencing on 22 February 2013.

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

All U.S. dollar amounts resulting from any of the calculations made pursuant to this Condition 4 will be rounded to the nearest cent (with one-half cent being rounded upwards).

(b) *Determination and Publication of Rates of Interest, Interest Payment Dates and Interest Amounts*

The Calculation Agent shall cause each Interest Rate, Interest Payment Date and interest amount payable on each Interest Payment Date or on the Early Redemption Date, as applicable, and such other information as may be determined by it to be notified to the Holders in accordance with Condition 13 (*Notices*) as soon as practicable after such determination, but in any event not later than two Business Days after such determination.

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

(c) *Calculation Agent*

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

5. REDEMPTION AND PURCHASE

(a) *Final Redemption*

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

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

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

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

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

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

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

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

(ii) A "Regulatory Event" shall be deemed to have occurred if the FINMA has notified UBS AG in writing that the Notes do not, or will cease to, fully qualify as (A) Tier 2 Capital and/or (B)

Progressive Capital Component; *provided, however*, that, without prejudice to the Issuer's right to redeem the Notes pursuant to clause (b), (c) or (e) of this Condition 5, a Regulatory Event shall not be deemed to have occurred for reasons of partial non-recognition of the Notes as Tier 2 Capital in the five-year period ending on the date immediately preceding the Maturity Date.

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

- (i) Upon the occurrence of a Change in Progressive Capital Component Requirement or an Alignment Event and subject to clauses (f) and (g) of this Condition 5, the Issuer may, within 60 days after the date on which such Change in Progressive Capital Component Requirement or Alignment Event, as the case may be, occurred, elect, in its sole discretion, to redeem the Notes, in whole but not in part, on the relevant Early Redemption Date at 101 per cent. of their aggregate principal amount, together with accrued and unpaid interest thereon to (but excluding) such Early Redemption Date, if any; *provided, however*, that, in the case of an Alignment Event, the Issuer may not exercise its early redemption right under this clause (e) if it has given the Holders an Amendment Notice pursuant to Condition 11 (*Amendments*).
- (ii) A “**Change in Progressive Capital Component Requirement**” shall be deemed to have occurred if (A) at any time on or after the Issue Date, the Minimum Progressive Capital Component Requirement in effect at such time is reduced as a direct consequence of a change in the National Regulations (the Minimum Progressive Capital Component Requirement as so reduced, the “**Reduced Minimum Progressive Capital Component Requirement**”), (B) UBS AG has received written confirmation from the FINMA that the Minimum Progressive Capital Component Requirement has been so reduced (such confirmation, a “**Reduction Confirmation**”), and (C) as a direct consequence of such reduction, the aggregate amount of capital held by the Group as of the first Balance Sheet Date immediately following receipt of the relevant Reduction Confirmation that qualifies as Progressive Capital Component as of such Balance Sheet Date exceeds the relevant Reduced Minimum Progressive Capital Component Requirement.
- (iii) An “**Alignment Event**” shall be deemed to have occurred if, as the result of any change in the National Regulations at any time after the Issue Date, any Relevant Swiss Issuer would be permitted to issue, or has issued, a capital instrument that (A) qualifies as Tier 2 Capital and Progressive Capital Component, and (B) has terms and conditions that (x) include a write-down feature, and (y) contain one or more provisions that are, in the reasonable opinion of the Issuer, different in any material respect from those in these Terms and Conditions, which provisions, if they had been included in these Terms and Conditions, would have prevented the Notes from qualifying as Tier 2 Capital and Progressive Capital Component immediately prior to such change in the National Regulations.

(f) *Early Redemption Notice*

If the Issuer elects to redeem the Notes pursuant to clause (b), (c), (d) or (e) of this Condition 5, the Issuer shall give the Holders not less than 30 and not more than 60 days' prior notice in accordance with Condition 13 (*Notices*) (an “**Early Redemption Notice**”), which notice shall be irrevocable and specify the date on which the Issuer shall redeem the Notes pursuant to such clause of this Condition 5 (such specified date, the “**Early Redemption Date**”).

(g) *Conditions for Early Redemption*

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

(h) *Purchases*

The Issuer or any other member or the Group or any of its affiliates may at any time purchase Notes at any price in the open market or otherwise, *provided* that (i) such purchase complies with any limits or

conditions to which any member of the Group is subject under applicable banking laws and regulations at the time of such purchase, (ii) the FINMA has approved such purchase in writing on or prior to the date of such purchase and (iii) no Viability Event has occurred prior to the date of such purchase. Any Notes so purchased may, at the option of the Issuer, be held, reissued, resold or surrendered to the Fiscal Agent for cancellation.

(i) *Cancellation*

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

(j) *Early Redemption of Other Instruments*

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

6. CONTINGENT WRITE-DOWN

(a) *Trigger Event*

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

(b) *Trigger Event Write-down Notice*

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

the Issuer shall, subject to clauses (b)(ii) and (b)(iii) of this Condition 6, give a Trigger Event Write-down Notice to the Holders (x) if such Publication Date is an Ordinary Publication Date, within five Business Days of such Publication Date (such fifth Business Day, the “**Trigger Breach Determination Date**”, and the date of such notice, the “**Ordinary Trigger Event Notice Date**”), and (y) if such Publication Date is an Extraordinary Publication Date, on such Publication Date (the “**Extraordinary Trigger Event Notice Date**”), in each case in accordance with Condition 13 (*Notices*).

- (ii) If the Issuer is required to give a Trigger Event Write-down Notice pursuant to clause (b)(i) of this Condition 6, and on the relevant Publication Date any High-Trigger Contingent Capital is outstanding with respect to which either (x) no High-Trigger Write-down/Conversion Notice has been given prior to the Trigger Event Notice Date or (y) a High-Trigger Write-down/Conversion Notice has been given prior to the Trigger Event Notice Date, but the Trigger Write-down Date is scheduled to occur prior to the relevant High-Trigger Write-down/Conversion Date,

- (A) in the case of clause (x) above, the Issuer shall postpone giving such Trigger Event Write-down Notice until the date on which a High-Trigger Write-down/Conversion Notice has been given with respect to all such outstanding High-Trigger Contingent Capital and such date shall be deemed to be the Trigger Event Notice Date, and
 - (B) in the case of clauses (x) and (y) above, if the Trigger Write-down Date is scheduled to occur prior to the High-Trigger Write-down/Conversion Date (or, in the case of more than one High-Trigger Write-down/Conversion Date, the latest High-Trigger Write-down/Conversion Date), the Trigger Write-down Date shall be postponed to the High-Trigger Write-down/Conversion Date (or the latest High-Trigger Write-down/Conversion Date, as applicable) and such postponement shall be specified in such Trigger Event Write-down Notice.
- (iii) If (A) the Issuer is required to give a Trigger Event Write-down Notice pursuant to clause (b)(i) of this Condition 6 in relation to an Ordinary Publication Date, and (B) prior to the earlier of the Ordinary Trigger Event Notice Date and the Trigger Breach Determination Date, the FINMA, upon the request of UBS AG, has agreed in writing that a Contingent Write-down is not required as a result of actions taken by the Group or circumstances or events, in each case, that have had, or imminently will have, the effect of restoring the Relevant Capital Ratio as of the Balance Sheet Date relating to the relevant Ordinary Publication Date, after giving pro forma effect to such actions, circumstances or events, to a level above the Write-down Threshold that the FINMA and UBS AG deem, in their sole discretion, to be adequate at such time, the Issuer (x) shall not give such Trigger Event Write-down Notice pursuant to clause (b)(i) of this Condition 6 in relation to the relevant Ordinary Publication Date, and (y) shall give notice to the Holders on or prior to the Trigger Breach Determination Date in accordance with Condition 13 (*Notices*), which notice shall state that no Contingent Write-down shall occur in relation to the relevant Ordinary Publication Date.
- (c) *Viability Event*
- (i) Upon the occurrence of a Viability Event, (A) the Issuer shall give notice to the Holders in accordance with Condition 13 (*Notices*) within three days of the date on which such Viability Event occurred, which notice shall (x) state that a Viability Event has occurred and a Contingent Write-down will take place and (y) specify the date on which the Contingent Write-down will take place, which date shall be no later than 10 Business Days after the date of such notice (such specified date, the “**Viability Event Write-down Date**”, and such notice, a “**Viability Event Write-down Notice**”), and (B) a Contingent Write-down shall occur on the Viability Event Write-down Date in accordance with clause (d) of this Condition 6.
 - (ii) A “**Viability Event**” shall be deemed to have occurred if:
 - (A) the FINMA has notified UBS AG in writing that it has determined a write-down of the Notes, together with the conversion or write down, as applicable, of holders’ claims in respect of any other capital instruments issued by any member of the Group that, pursuant to their terms or by operation of law, are capable of being converted into equity or written down at that time, is, because customary measures to improve UBS AG’s capital adequacy are at the time inadequate or unfeasible, an essential requirement to prevent UBS AG from becoming insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business; or
 - (B) because customary measures to improve UBS AG’s capital adequacy being at the time inadequate or unfeasible, UBS AG has received an irrevocable commitment of direct or indirect extraordinary support from the Public Sector (beyond customary transactions and arrangements in the ordinary course) that has, or imminently will have, the effect of improving UBS AG’s capital adequacy and without which, in the determination of (and as notified in writing by) the FINMA, UBS AG would have become insolvent, bankrupt, unable to pay a material part of its debts as they fall due or unable to carry on its business.

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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, on the relevant Write-down Date,

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

(e) *Determination of Relevant Capital Ratio and Relevant Trigger Capital Ratio*

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

7. PAYMENTS

- (a) All payments required to be made under the Notes shall be made available in good time in freely disposable U.S. dollars, which will be placed at the free disposal of the Fiscal Agent on behalf of the Holders. If the scheduled due date for any payment under the Notes does not fall on a Business Day, the Issuer undertakes to effect payment for value on the Business Day immediately following such scheduled due date, and the Holders shall not be entitled to any additional sum in relation to such payment. All payments required to be made under the Notes (including any Additional Amounts) shall be made to the Holders in U.S. dollars without collection costs (in the case of Definitive Notes, if any, subject to paragraph (c) below, at the specified offices of the Paying Agents upon their surrender), 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 receipt by the Fiscal Agent of the due and punctual payment of funds in U.S. dollars shall release the Issuer from its obligations under the Notes to the extent of such payment.
- (c) Any and all payments under the Notes shall be made outside the United States of America and its possessions.
- (d) The Issuer reserves the right to terminate the appointment of the Fiscal Agent or any other Paying Agent and to appoint additional or other Paying Agents. So long as any Note is outstanding, the Issuer shall at all times maintain (i) a Fiscal Agent that is a participant of the Intermediaries; and (ii) a Paying Agent in

an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to, such Directive. Any such variation, termination or appointment shall only take effect not more than 45 and not less than 30 days' after the Issuer has notified the Holders of such variation, termination or appointment pursuant to Condition 13 (*Notices*); *provided, however*, that, in the case of insolvency, such variation, termination or appointment shall take immediate effect.

8. TAXATION

- (a) All payments to be made by or on behalf of the Issuer pursuant to these Terms and Conditions 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 such withholding or deduction 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 is subject to any withholding or deduction for, or on account of, any Taxes by requirement of law, 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
 - (iii) if the relevant Holder would have been able to avoid such withholding or deduction by presenting such Note to, or arranging to receive payment through, another Paying Agent in a Member State of the European Union; or
 - (iv) more than 30 days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to receive the Additional Amounts if it had presented such Note for payment on the last day of such 30-day period; or
 - (v) with respect to any Tax collected pursuant to the provisions of, 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
 - (vi) where such withholding or deduction is required to be made pursuant to laws enacted by Switzerland providing for the taxation of payments according to principles similar to those set forth in (A) the EU Savings Tax Directive or (B) the draft legislation proposed by the Swiss Federal Council on 24 August 2011, including, without limitation, the requirement that a person other than the Issuer (such as any paying agent) withhold or deduct tax.
- (d) Any reference in these Terms and Conditions to amounts payable by the Issuer pursuant to these Terms and Conditions includes (i) any Additional Amount payable pursuant to this Condition 8 and (ii) any sum payable pursuant to an obligation taken in addition to or in substitution for the obligation in this Condition 8.

9. STATUTE OF LIMITATIONS

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

10. EVENTS OF DEFAULT

- (a) If any of the following events shall occur, such occurrence shall constitute an “**Event of Default**”:
- (i) the Issuer shall fail to pay the principal amount of any Note when and as the same shall become due and payable under these Terms and Conditions, whether at the due date pursuant to clause (a) of Condition 5 (*Redemption and Purchase*) or at a date fixed for early redemption pursuant to clause (b), (c), (d) or (e) of Condition 5 (*Redemption and Purchase*), and such failure shall continue unremedied for a period of 30 days; or
 - (ii) the Issuer shall fail to pay any interest on the Notes when and as the same shall become due and payable under these Terms and Conditions, whether at the due date pursuant to Condition 4 (*Interest*) or at a date fixed for early redemption pursuant to clause (b), (c), (d) or (e) of Condition 5 (*Redemption and Purchase*), and such failure shall continue unremedied for a period 30 days; or
 - (iii) the Issuer shall fail to observe or perform any covenant, condition, or agreement contained in these Terms and Conditions and such failure either (A) is incapable of remedy or (B) shall continue unremedied for a period of 60 days after written notice thereof from any Holder to the Issuer; or
 - (iv) a Bankruptcy Event.
- (b) Upon the occurrence of an Event of Default relating to any failure of the Issuer to meet any payment obligation under these Terms and Conditions and subject to Condition 6 (*Contingent Write-down*), (i) such payment obligation (and such payment obligation only) shall be immediately deemed a due and payable (*fällige*) payment obligation of the Issuer, and (ii) if (A) the relevant Holder has formally requested payment of such payment obligation, (B) such payment obligation has not been fulfilled within the statutory period under Swiss law commencing after the date of such formal request and (C) a writ of payment (*Zahlungsbefehl*) has been issued with respect to such payment obligation pursuant to Swiss insolvency laws, the relevant Holder may institute proceedings against the Issuer in Switzerland (but not elsewhere) to enforce its rights with respect to such payment obligation under Swiss insolvency laws.
- (c) If an insolvency proceeding with respect to the Issuer is instituted in Switzerland in accordance with clause (b) of this Condition 10, the Issuer shall not (i) after having received the writ of payment (*Zahlungsbefehl*) relating to the relevant payment obligation, argue or plead that such payment obligation is not due and payable by the Issuer, or (ii) prior to the declaration of bankruptcy (or similar proceeding under Swiss insolvency laws), make any payment to the relevant Holder under or in connection with the Notes.
- (d) In the case of any Event of Default arising under clause (a)(iii) above and subject to Condition 6 (*Contingent Write-down*), any Holder may seek specific performance or damages with respect to such Event of Default pursuant to the Swiss Code if so entitled thereunder.
- (e) In the case of any Event of Default arising under clause (a)(iv) above and subject to Condition 6 (*Contingent Write-down*), any Holder may, by written notice to the Fiscal Agent at its specified office, declare the principal amount of any of its Notes, together with any accrued and unpaid interest thereon, immediately due and payable, without presentment, demand, protest or other notice of any kind.
- (f) No remedy against the Issuer other than those described in this Condition 10 shall be available to the Holders in connection with the Issuer’s obligations under these Terms and Conditions, whether for the recovery of amounts owing under these Terms and Conditions or in respect of any breach by the Issuer of any of its other obligations under these Terms and Conditions or otherwise. In particular, no Holder may declare (i) the principal amount of any Notes due and payable prior to the Maturity Date, or (ii) any interest on any Notes due and payable prior to the relevant Interest Payment Date, except, in the case of each of subclauses (i) and (ii) of this clause (f), pursuant to clause (e) of this Condition 10.

11. AMENDMENTS

- (a) If an Alignment Event has occurred and is continuing, the Issuer may, without the consent of the Holders, amend these Terms and Conditions in order to align them (to the extent possible) with the terms of any outstanding capital instruments that (x) have been issued by any member of the Group, (y) qualify as Tier 2 Capital and Progressive Capital Component and (z) have terms and conditions that (A) include a write-down feature, and (B) contain one or more provisions that are, in the reasonable opinion of the Issuer, different in any material respect from those in these Terms and Conditions, which provisions, if they had been included in these Terms and Conditions, would have prevented the Notes from qualifying as Progressive Capital Component immediately prior to the change in the National Regulations related to such Alignment Event, *provided that*
- (i) such amendment, in the reasonable opinion of the Issuer, does not materially adversely affect the rights and claims of the Holders under the Notes;
 - (ii) the Issuer has given the Holders not less than 30 days' notice of such amendment in accordance with Condition 13 (*Notices*), which notice (the "**Amendment Notice**") shall (A) be irrevocable and (B) state the date on which such amendment shall be effective (the "**Amendment Effective Date**");
 - (iii) the FINMA has approved such amendment in writing;
 - (iv) no Viability Event has occurred prior to the applicable Amendment Effective Date; and
 - (v) prior to the date of the applicable Amendment Notice, the Issuer has not delivered an Early Redemption Notice, pursuant to which it has notified the Holders that it is exercising its right of early redemption under clause (e) of Condition 5 (*Redemption and Purchase*) as the result of the occurrence of the Alignment Event.
- (b) In addition to its rights under clause (a) of this Condition 11, the Issuer may, without the consent of the Holders, make any amendment to these Terms and Conditions that it considers to be (i) necessary or desirable to give effect to the provisions of clause (a) of Condition 15 (*Substitution*) (including, without limitation, (x) if the Substitute Issuer is organised and/or resident for tax purposes in a jurisdiction other than Switzerland and/or Jersey, any amendments to any references to the jurisdictions of "Switzerland" and/or "Jersey" 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 AG's guarantee described in clause (a)(vi) of Condition 15 (*Substitution*)), or (ii) formal, minor or technical in nature or (iii) necessary to correct a manifest error.
- (c) The parties to the Agency Agreement may agree without the consent of the Holders to any amendment thereto that is (i) in the reasonable opinion of such parties, not materially prejudicial to the interests of the Holders, (ii) formal, minor or technical in nature, or (iii) necessary to correct a manifest error.
- (d) The Issuer shall notify the Holders of any amendments made pursuant to clause (b) or (c) of this Condition 11 in accordance with Condition 13 (*Notices*), which notice shall state the date on which such amendment shall be effective.
- (e) Any amendment made pursuant to this Condition 11 shall be binding on the Holders in accordance with its terms.

12. REPLACEMENT

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

13. NOTICES

- (a) So long as the Notes are represented by the Global Notes, which are deposited with the Common Depository for the Intermediaries, notices to Holders shall be given by communication through the Fiscal Agent to the Intermediaries for forwarding to the Holders, and any notice so given shall be deemed to be validly given on the date of delivery to the relevant Intermediary.
- (b) If Definitive Notes have been printed, notices to Holders (including any holders of Coupons) shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication.

14. MEETINGS OF HOLDERS

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

15. 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 13 (*Notices*), *provided that*:
 - (i) at least 95 per cent. of the Substitute Issuer’s capital and voting rights are held, directly or indirectly, by UBS AG;
 - (ii) the Issuer is not in default in respect of any amount payable under the Notes at the time of such substitution;
 - (iii) the Issuer and the Substitute Issuer have entered into such documents (the “**Substitution Documents**”) as are necessary to give effect to such substitution and pursuant to which the Substitute Issuer has undertaken in favour of each Holder to be bound by these Terms and Conditions as the principal debtor under the Notes in place of the Issuer;
 - (iv) if the Substitute Issuer is resident for tax purposes in a jurisdiction (the “**New Residence**”) other than that in which the Issuer prior to such substitution was resident for tax purposes (the “**Former Residence**”), the Substitution Documents contain an undertaking and/or such other provisions as may be necessary to ensure that each Holder has the benefit of an undertaking in terms corresponding to the provisions of Condition 8 (*Taxation*), with the substitution of references to the Former Residence with References to the New Residence;
 - (v) the Issuer and the Substitute Issuer have obtained all necessary governmental approvals and consents for such substitution and for the performance by the Substitute Issuer of its obligations under the Substitution Documents;
 - (vi) UBS AG has irrevocably and unconditionally guaranteed to the Holders, on a subordinated basis, the due and punctual payment of all amounts due and payable by the Substitute Issuer under, or in respect of, the Notes pursuant to article 111 of the Swiss Code; and
 - (vii) if applicable, the Substitute Issuer has appointed a process agent as its agent in Switzerland to receive service of process on its behalf in relation to any legal proceedings arising out of or in connection with the Notes and the Agency Agreement.
- (b) Upon any substitution pursuant to clause (a) of this Condition 15, the Substitute Issuer shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Notes with the

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same effect as if the Substitute Issuer had been named as Issuer in these Terms and Conditions, and the Issuer shall be released from its obligations under the Notes.

- (c) Prior to any substitution pursuant to clause (a) of this Condition 15, UBS AG may, without the consent of the Holders, upon giving no more than 30 and no less than 10 days' notice to the Holders in accordance with Condition 13 (*Notices*), at any time after 23 March 2012, (i) cease to make payments of principal, interest and any other amounts due under the Notes and fulfil any of its other obligations and exercise any of its other rights and powers in respect of, or arising under, the Notes through its Jersey branch and (ii) commence making such payments, fulfilling such other obligations and exercising such powers and rights through its head offices in Basel and Zurich (an "**Issuing Branch Substitution**"), *provided* that, as of the time of giving the relevant notice, (A) the Issuer is not in default in respect of any amount payable under the Notes and (B) the Issuer would not be required to pay any Additional Amounts under these Terms and Conditions after giving effect to such Issuing Branch Substitution that it would not have been required to pay if such Issuing Branch Substitution were not to occur. Upon an Issuing Branch Substitution pursuant to this clause (c), references to the "Issuer" in these Terms and Conditions, each Global Note and the Agency Agreement shall be construed accordingly, and references to "Jersey" in these Terms and Conditions shall, unless the context otherwise requires, be construed as references to "Switzerland".

16. FURTHER ISSUES

The Issuer may from time to time without the consent of the Holders issue further notes and, *provided* that such notes have the same terms and conditions as the Notes in all respects (or in all respects except for the issue date and/or first date on which interest is paid), such further notes shall be consolidated and form a single series with the Notes. If the Issuer issues any such further notes pursuant to this Condition 16, references in these Terms and Conditions to "**Notes**" shall include such further notes, unless the context otherwise requires.

17. CURRENCY INDEMNITY

Any amount received or recovered by any Holder in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of UBS AG or otherwise) under the Notes shall only constitute a discharge of the Issuer to the extent of the amount in U.S. dollars that such Holder is able to purchase with the amount so received or recovered in such other currency on the date of such receipt or recovery (or, if it is not practicable to purchase U.S. dollars with such amount on such date, on the first date on which it is practicable to do so). If the amount of U.S. dollars such Holder is able to purchase is less than the amount owed by the Issuer to such Holder under the Notes, the Issuer shall indemnify such Holder against any loss sustained by it as a result. In addition, the Issuer shall indemnify such Holder for the costs of making such purchase. For purposes of this Condition 17, it is sufficient for the relevant Holder to demonstrate that it would have suffered a loss had an actual purchase been made. The indemnities under this Condition 17 shall (i) constitute a separate and independent obligation from the Issuer's other obligations hereunder, (ii) give rise to a separate and independent cause of action, (iii) apply irrespective of any indulgence granted by any Holder and (iv) continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any amount due under the Notes or any other judgment or order.

18. NO SET-OFF BY HOLDERS

Subject to applicable law, no Holder may exercise, claim or plead any right of set-off, compensation or retention with respect to any amount owed to it by the Issuer in respect of, or arising in connection with, the Notes.

19. NO CONVERSION

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

20. GOVERNING LAW AND JURISDICTION

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