SUPPLEMENT DATED 10 APRIL 2014 TO THE BASE PROSPECTUS DATED 8 JANUARY 2014

UBS AG

(*incorporated with limited liability in Switzerland*)

acting through its London Branch

COVERED BOND PROGRAMME

issues under which will be irrevocably guaranteed as to payments by

UBS HYPOTHEKEN AG

(incorporated with limited liability in Switzerland)

This supplement (the **Base Prospectus Supplement**) to the Base Prospectus dated 8 January 2014 (together, the **Base Prospectus**) constitutes a supplement for the purposes of Article 16 of Directive 2003/71/EC as amended (the **Prospectus Directive**) and is prepared in connection with the Covered Bond Programme (the **Programme**) established by UBS AG acting through its London branch (the **Issuer**). Terms defined in the Base Prospectus have the same meaning when used in this Base Prospectus Supplement.

This Base Prospectus Supplement is supplemental to and should be read in conjunction with the Base Prospectus. The purpose of the Base Prospectus Supplement is to reflect certain recent developments in relation to the Issuer and to publish certain information in relation to the Loans.

This Base Prospectus Supplement has been approved by the Central Bank of Ireland (the **Central Bank**), as competent authority under the Prospectus Directive. The Central Bank only approves this Base Prospectus Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. This supplement has been approved by the Irish Stock Exchange as a Base Listing Particulars Supplement (the **Base Listing Particulars Supplement**). Where Covered Bonds are admitted to trading on the global exchange market (the **Global Exchange Market**) which is the exchange regulated market of the Irish Stock Exchange, references herein to "Base Prospectus Supplement" should be taken to mean "Base Listing Particulars Supplement".

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

To the extent that there is any inconsistency between (a) any statement in this Base Prospectus Supplement or any statement incorporated by reference into the Base Prospectus by this Base Prospectus Supplement and (b) any other statement in or incorporated by reference in the Base Prospectus, the statement in (a) above will prevail.

In accordance with Article 16(2) of the Prospectus Directive, investors who have already agreed to purchase or subscribe for the securities before this Base Prospectus Supplement is published have the right, exercisable within a time limit of minimum two working days after the publication of this Base Prospectus Supplement (being 14 April 2014), to withdraw their acceptances.

Save as disclosed in this Base Prospectus Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus which is capable of affecting the assessment of the Covered Bonds issued under the Programme since the publication of the Base Prospectus.

The ratings from Fitch Ratings have been (or are expected to be) issued by Fitch Ratings Limited, and the ratings from Standard & Poor's have been (or are expected to be) issued by Standard & Poor's Credit Market Services Europe Limited. Both are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the **CRA Regulation**). The ratings of the Covered Bonds from Moody's have been (or are expected to be) issued by Moody's Investors Service Ltd, which is registered as a credit rating agency under the CRA Regulation. The ratings of UBS AG have been (or are expected to be) issued by Moody's Investors Service, Inc., which is not established in the EEA and is not certified under the CRA Regulation, but the rating it has issued is endorsed by Moody's Investors Service Ltd., a credit rating agency established in the EEA and registered under the CRA Regulation.. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the European Union but is endorsed by a credit rating agency established in the European Union and registered under the CRA Regulation or (2) the rating is provided by a credit rating agency not established in the European Union but which is certified under the CRA Regulation.

The language of this document 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 under applicable law.

Any websites referred to within this Base Prospectus Supplement, including www.ubs.com/investors and www.ubs.com/governance, do not form part of this Base Prospectus Supplement.

CERTAIN INFORMATION REGARDING THE LOANS

The statistical and other information contained in this Appendix has been compiled by reference to the Relevant Mortgage Loans in the Cover Pool as at 31 March 2014 (the **Cut-off Date**). Except as otherwise indicated, these tables have been prepared using the Current Balance as at the Cut-off Date, which includes all principal and accrued interest for the Relevant Mortgage Loans as at the Cut-off Date and may no longer be a true reflection of the Relevant Mortgage Loans. The following information does not include any Relevant Mortgage Loans assigned to the Cover Pool since the Cut-off Date.

The Adjusted Aggregate Relevant Mortgage Loan Amount as at the Cut-off Date exceeded the requirements of the Asset Coverage Test by more than 34.5%. Pursuant to the terms of the Security Assignment and Transfer Agreement, prior to the service of a Guarantee Activation Notice the Originator is entitled to request the retransfer of any Excess Cover Pool Assets contained in the Cover Pool from time to time.

As of the Cut-off Date, the aggregate principal amount of Covered Bonds issued under the Programme and guaranteed under the Guarantee, amounted to the equivalent of approx. CHF15,184,515,000.

Mortgage Portfolio Summary

	Residential Mortgages
Total of Property Loan Balance	22,042,388,885
Average Loan Balance of Property	429,174
Number of Property Loans	51,360
Weighted Average Remaining Terms (in years):	3.73
Weighted Average LTV (in %):	52.4%

Seasoning of Relevant Mortgage Loans

The following table shows the number of years remaining on the length of the Relevant Mortgage Loans. The ages and balances of the Relevant Mortgage Loans in this table have been taken as at the Cut-off Date.

	Residential Mortgages		
Remaining Terms	**Number of Contracts**	**Amount**	**% of Total**
No termination date	25,791	5,679,225,932.55	25.8%
up to 1 year	10,161	2,525,318,541.87	11.5%
1 - 2 years	11,172	2,900,371,270.60	13.2%
2 - 3 years	8,959	2,350,089,483.80	10.7%
3 - 4 years	7,836	2,075,462,189.35	9.4%
4 - 5 years	5,602	1,457,544,165.15	6.6%
5 - 6 years	3,957	1,117,533,068.00	5.1%
6 - 7 years	4,782	1,433,773,742.65	6.5%
7 - 8 years	3,591	1,093,911,898.85	5.0%
8 - 9 years	3,099	884,148,764.50	4.0%
9 - 10 years	1,945	511,123,327.20	2.3%

	Residential Mortgages		
Remaining Terms	**Number of Contracts**	**Amount**	**% of Total**
> 10 years	28	13,886,500.00	0.1%
Total	**86,923**	**22,042,388,884.52**	**100%**

Current Loan to Value Ratios

The following table shows the range of LTV, which expresses the ratio of the Current Balance of All Relevant Mortgage Loans as at the Cut-off Date. LTV is calculated as the ratio of the loan amount to the latest property value as recorded on the UBS system.

	Residential Mortgages		
Current Loan to Value	**Number of Properties**	**Amount**	**% of Total**
<= 10%	999	89,223,672.20	0.4%
10 - 20%	3,184	577,879,024.65	2.6%
20 - 30%	5,374	1,460,916,155.05	6.6%
30 - 40%	7,895	2,860,152,621.05	13.0%
40 - 50%	9,530	4,042,185,401.77	18.3%
50 - 60%	10,056	4,952,770,000.00	22.5%
60 - 70%	9,221	5,061,068,460.65	23.0%
70 - 80%	4,947	2,902,009,987.35	13.2%
80 - 90%	144	90,056,842.80	0.4%
90 - 95%	6	3,021,900.00	0.0%
95 - 100%	3	2,522,569.00	0.0%
> 100%	1	582,250.00	0.0%
Total	**51,360**	**22,042,388,884.52**	**100%**

Outstanding Balances as at the Cut-off Date

The following table shows the range of Current Balances of All Relevant Mortgages Loans in the Cover Pool as at the Cut-off Date.

	Residential Mortgages		
Total Balance by Property	**Number of Properties**	**Amount**	**% of Total**
<= 100,000	3,953	291,512,748.05	1.3%
100 - 200,000	7,904	1,278,424,581.00	5.8%
200 - 300,000	8,784	2,285,048,369.77	10.4%
300 - 400,000	8,641	3,099,572,665.60	14.1%
400 - 500,000	7,371	3,372,720,095.85	15.3%
500 - 600,000	5,185	2,877,785,599.05	13.1%
600 - 700,000	3,095	2,025,618,646.90	9.2%
700 - 800,000	1,861	1,406,082,206.25	6.4%
800 - 900,000	1,207	1,033,883,789.85	4.7%
900,000 - 1 Million.	910	875,313,773.45	4.0%
1 - 1.1 Million	578	613,277,787.05	2.8%
1.1 - 1.2 Million	463	536,627,240.60	2.4%
1.2 - 1.3 Million	358	450,689,660.75	2.0%
1.3 - 1.4 Million	223	302,473,611.40	1.4%
1.4 - 1.5 Million	250	364,334,062.75	1.7%
1.5 - 2 Million	365	624,708,827.20	2.8%
2 - 3 Million	147	357,711,725.50	1.6%
3 - 4 Million	45	155,965,050.00	0.7%
4 - 5 Million	20	90,638,443.50	0.4%
> 5 Million			0.0%

	Residential Mortgages		
Total Balance by Property	**Number of Properties**	**Amount**	**% of Total**
Total	**51,360**	**22,042,388,884.52**	**100%**

Product Breakdown

The following table shows the distribution of products by interest rate type as at the Cut-off Date.

	Residential Mortgages		
Interest Rate Type	**Number of Contracts**	**Amount**	**% of total**
Fixed	61,132	16,363,162,951.97	74.2%
Libor 1M	43	26,099,107.50	0.1%
Libor 3M	24,678	5,439,715,874.75	24.7%
Libor 6M	913	187,937,040.65	0.9%
Portfolio 2Y	96	14,469,376.50	0.1%
Portfolio 3Y	41	7,746,542.50	0.0%
Portfolio 5Y	3	1,095,000.00	0.0%
Variable	17	2,162,990.65	0.0%
Total	**86,923**	**22,042,388,884.52**	**100%**

Geographical Analysis

The following table shows the distribution of properties securing the Relevant Mortgage Loans throughout Switzerland as at the Cut-off Date. No such properties are situated outside Switzerland.

	Residential Mortgages		
W&P - Property Region	**Number of Properties**	**Amount**	**% of Total**
Berne	1720	697,566,428.30	3.2%
Central Switzerland	3332	1,562,309,133.50	7.1%
E. Switzerland	3230	1,277,465,773.25	5.8%
Lake Geneva Area	13108	6,699,684,101.65	30.4%
N.W. Switzerland	7359	3,156,932,350.35	14.3%
S. Switzerland	9711	2,984,083,554.87	13.5%
W. Switzerland	6027	2,252,570,513.00	10.2%
Zürich	6873	3,411,777,029.60	15.5%
Total	**51,360**	**22,042,388,884.52**	**100%**

Property Type

The following table shows the breakdown of property types as at the Cut-off Date.

	Residential Mortgages		
Property Type	**Number of Properties**	**Amount**	**% of Total**
Condominium	21,290	7,580,812,205.22	34.4%
Holiday Home	3,548	1,017,148,059.60	4.6%
Single Family Home	26,522	13,444,428,619.70	61.0%
Other			0.0%
Total	**51,360**	**22,042,388,884.52**	**100%**

Arrears Analysis of Relevant Mortgage Loans

The following table summarises the current arrears position of the Relevant Mortgage Loans as at the Cut-off Date.

The Originator identifies a Relevant Mortgage Loan as being in arrears if, at any date, interest or other amounts are overdue in respect of that Relevant Mortgage Loan.

	Residential Mortgages		
Arrears	**Number of Contracts**	**Amount**	**% of Total**
Not in arrears	86,841	22,016,446,217.22	99.9%
<= 3 months in arrears	82	25,942,667.30	0.1%
> 3 months in arrears	-	-	0.0%
Total	**86,923**	**22,042,388,884.52**	**100%**

AMENDMENTS TO THE "SUMMARY" SECTION

The "Summary" section on pages 17-42 inclusive of the Base Prospectus is replaced with the Summary section provided in the Annex to this Base Prospectus Supplement.

AMENDMENTS TO THE "RISK FACTORS" SECTION

The "*Risk Factors*" section starting on page 43 of the Base Prospectus is updated by the deletion of the first paragraph thereunder and its replacement with the following:

This section, together with the risk factors set forth in UBS AG's Annual Report on Form 20-F for the year ended 31 December 2013, incorporated by reference herein, describes the principal risk factors associated with an investment in the Covered Bonds. Prospective purchasers of Covered Bonds should consider carefully all the information contained in this document, including the considerations set out below, before making any investment decision.

The risk factor entitled "*Change of Law*" on page 75 of the Base Prospectus shall be updated to read as follows:

The transaction structure developed for purposes of the issuance of Covered Bonds (see – *Structure of the Programme*), the Conditions of the Covered Bonds (other than German Law Registered Covered Bonds) and the Transaction Documents are based on English law (including United Kingdom tax law) and Swiss law in effect as at the date of this Base Prospectus and the description of the effects thereof or any default or insolvency of the Guarantor or UBS AG are based on Swiss law in effect as at the date thereof. Such laws and the interpretation thereof have been and are subject to change. No assurance can be given as to the impact of any possible judicial decision or change to English law (including United Kingdom tax law) or Swiss law or administrative practice in the United Kingdom or Switzerland after the date of this Base Prospectus nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer or the Guarantor to make payments under the Covered Bonds and/or the ability of the Guarantor to make payments under the Guarantee.

For example, pursuant to an amendment to the Swiss Federal Act on Unfair Competition, entering into force as of 1 July 2012, a provision contained in a standard form of agreement may be declared invalid if a court finds that the provision creates, in violation of the principle of good faith, a material and unjustified disproportion between the contractual rights and obligations to the detriment of consumers (see *The waivers of banking secrecy and the transfer clauses necessary for the transfer of the Cover Pool Assets, as well as other relevant provisions in UBS AG's standard forms of agreement may be deemed by Swiss courts to be insufficient or inapplicable, which may negatively affect the validity of the transfer of Cover Pool Assets to the Guarantor, replenishment of the Cover Pool as well as the value and/or the enforceability of the Cover Pool Assets*).

Also, according to a change to the DEBA which entered into force as of 1 January, 2014, continuing obligations are subject to a special treatment in case of insolvency, including the right of the obligor to terminate, with the permission of the receiver (*Sachwalter*), any contracts for the performance of continuing obligations (*Dauerschuldverhältnisse*) at any time at will in case of a provisional or definitive stay (*Nachlassstundung*) if a restructuring would otherwise be defeated (article 297a DEBA) (see also *Certain matters of Swiss law – Enforcement and Insolvency – Restructuring*). While as of the date hereof there is no clear guidance as to how this provision would be applied under the circumstances given, according to the Message of the Federal Council (*Botschaft*), this provision is expressed to be only applicable to continuing contracts providing for the continued exchange of goods or services (*fortdauernder und wiederholter Leistungsaustausch*) and, therefore, it should not apply to any contracts of the Guarantor which are fully or partially discharged by way of a singular payment or performance (such as, for example, the Guarantee).

Furthermore, on 13 December 2013, the Swiss Federal Council launched a consultation process for a new act to be named Financial Market Infrastructure Act (**FMIA**). The core purpose of the FMIA is to adjust Swiss regulation of financial market infrastructure and derivatives trading to market developments and international requirements, in particular the regulation on over-the-counter derivatives, central counterparties and trade repositories by the European Union. The current draft of the FMIA (**Draft FMIA**) would introduce provisions on insolvency and restructuring measures (including with respect to segregation of assets in the event of an insolvency of a financial market infrastructure entity, such as the Nominee System Provider) that are different from the rules currently applicable to banks under the FBA. In addition, the Draft FMIA proposes to amend the FBA, seeking to subject parent companies of financial groups or conglomerates and certain unregulated companies of such groups (such as potentially the Guarantor) domiciled in Switzerland to the Swiss resolution regime applicable to banks, including potentially protective measures such as an interdiction of payment, debt-to-equity swaps and haircuts (see *Certain Matters of Swiss Law – Enforcement and Insolvency – Restructuring*). The consultation process on the Draft FMIA has ended on 31 March 2014. Consequently, it is not possible to predict whether the Draft FMIA or any such amendment to the FBA will be enacted and, if and when enacted, what precise form it would take and whether it would have an adverse effect on the ability of the Guarantor to (i) segregate Transferred Paperless Mortgage Certificates in an insolvency of the Nominee System Provider, and/or (ii) make scheduled payments under the Guarantee, and/or the rights of the Covered Bondholders against the Guarantor under the Guarantee.

The Covered Bonds are not issued pursuant to a specific statutory framework, but are based on a novel structure (see *Structure of the Programme*). Accordingly, changes in law or its interpretation, including by way of changes to administrative practice and judicial decisions, may adversely affect the Covered Bonds and the rights of the Covered Bondholders against the Issuer under the Covered Bonds and/or against the Guarantor under the Guarantee and even the viability of the transaction structure. Without limitation to the generality of the foregoing, relevant changes could result in the transfer of Mortgage Assets and Cover Pool Assets to the Guarantor not being recognised, prevent or limit the liquidation or enforcement of Mortgage Assets and Cover Pool Assets for the benefit of the Covered Bondholders and the distribution of the proceeds thereof in accordance with the applicable Priority of Payments, compromise the bankruptcy remoteness of the Guarantor and/or make the Guarantor subject to the special insolvency regime for banks and other relevant entities (see *Certain Matters of Swiss Law – Enforcement and Insolvency*), all of which could leave the Covered Bondholders with economically unsecured claims against the Issuer (see also *Structure of the Programme*).

AMENDMENTS TO THE "DOCUMENTS INCORPORATED BY REFERENCE" SECTION

Paragraph (A) of the "*Documents Incorporated by Reference*" section on page 83 of the Base Prospectus is deleted and replaced by the following:

"(A) UBSAG's annual report on Form 20-F for the year ended 31 December 2013, which was filed with the United States Securities and Exchange Commission (the **SEC**) on 14 March 2014 (the **2013 Annual Report on Form 20-F**) (accessible at http://www.static-ubs.com/global/en/about_ubs/investor_relations/other_filings/sec/_jcr_content/par/linklist_c2de/link_2.1089074195.file/bGluay9wYXRoPS9jb250ZW50L2RhbS9zdGF0aWMvZ2xvYmFsL2ludmVzdG9yX3JlbGF0aW9ucy9hbm51YWwyMDEzL3NlYy1mb3JtLTIwZi0yMDE0LnBkZg==/sec-form-20f-2014.pdf), UBS AG's annual report on Form 20-F for the year ended 31 December 2012, which was filed with the SEC on 14 March 2013 (the **2012 Annual Report on Form 20-F**) (accessible at http://www.static-ubs.com/global/en/about_ubs/investor_relations/annualreporting/2012/_jcr_content/par/teaserbox_6c86/teaser_acb3/linklist/link.1758493430.file/bGluay9wYXRoPS9jb250ZW50L2RhbS9zdGF0aWMvZ2xvYmFsL2ludmVzdG9yX3JlbGF0aW9ucy9hbm51YWwyMDEyL3NlYy1mb3JtLTIwZi5wZGY=/sec-form-20f.pdf);"

Paragraph (B) of the "*Documents Incorporated by Reference*" section on page 83 of the Base Prospectus is deleted and replaced by the following:

"(B) UBS AG's submission on Form 6-K, made on the following dates: one submission made on 1 April 2014, containing the agenda for the Annual General Meeting of UBS AG (accessible at http://www.ise.ie/app/DeptSecurityDocuments.aspx?progID=368&FIELDSORT=docId);"

AMENDMENTS TO THE "DESCRIPTION OF UBS AG" SECTION

The "*Description of UBS AG*" section on pages 242-270 inclusive of the Base Prospectus is deleted and replaced with the following:

Words and expressions defined elsewhere in the Base Prospectus shall have the same meanings where used in this "Description of UBS AG" section unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between words and expressions defined in this "Description of UBS AG" section and elsewhere in the Base Prospectus, words and expressions defined in this "Description of UBS AG" section will prevail.

1. OVERVIEW

UBS AG with its subsidiaries (together, **UBS Group**, **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 and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centers

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

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

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

No profit forecasts or estimates are included in this document.

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

2. CORPORATE INFORMATION

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

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

[2] Full-time equivalents

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

UBS AG is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations and Swiss Federal Banking Law as an *Aktiengesellschaft*, a corporation that has issued shares of common stock to investors.

According to article 2 of the Articles of Association of UBS AG, dated 7 February 2014 (**Articles of Association**), the purpose of UBS AG is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad.

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

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

3. BUSINESS OVERVIEW

3.1 Organizational Structure of UBS AG

UBS AG is the parent company of the UBS Group. UBS Group legal entity structure is designed to support its businesses with an efficient legal, tax and funding framework considering regulatory restrictions in the countries where UBS operates. UBS operates as a group with five business divisions and a Corporate Center. Neither the business divisions nor the Corporate Center are separate legal entities. They primarily operate out of UBS AG, through its branches worldwide. This structure is designed to capitalize on the increased business opportunities and cost efficiencies offered by the use of a single legal platform, and to enable the flexible and efficient use of capital. Where it is impossible or inefficient to operate out of the parent bank, businesses operate through local subsidiaries. This can be the case when required for legal, tax or regulatory purposes, or when legal entities join the Group through acquisition.

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

In February 2014, the US Federal Reserve Board issued final rules for foreign banking organizations (**FBO**) operating in the US that include 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. UBS has until 1 July 2016 to establish an IHC.

UBS AG's significant subsidiaries as of 31 December 2013 are listed in its 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 the Group'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 Corporate Center – Core Functions and Corporate Center – Non-core and Legacy Portfolio. Corporate Center – Core Functions provides Group-wide control functions including finance, risk control (including compliance) and legal. In addition, it provides all logistics and support functions including operations, information technology, human resources, corporate development, regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical security, information security, offshoring and treasury services such as funding, balance sheet and capital management. Corporate Center – Core Functions allocates most of its treasury income, operating expenses and personnel associated with the abovementioned activities to the businesses based on capital and service consumption levels. Corporate Center – Non-core and Legacy Portfolio comprises the non-core businesses and legacy positions previously part of the Investment Bank.

3.3 Competition

The financial services industry is 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

UBS's results as of and for the year ended 31 December 2013, as presented in UBS AG's Annual Report 2013 (including audited consolidated financial statements of UBS Group)

UBS Group: Net profit attributable to UBS shareholders for 2013 was CHF 3,172 million compared with a loss of CHF 2,480 million in 2012. Operating profit before tax was 3,272 million compared with a loss of CHF 1,794 million in the prior year. Operating income increased by CHF 2,309 million and operating expenses decreased by CHF 2,755 million. On an adjusted basis[3], profit before tax was CHF 4,141 million in 2013 compared with CHF 2,885 million in the prior year. Adjusted operating income increased by CHF 316 million, mainly reflecting an increase of CHF 891 million in net fee and commission income, largely in UBS's wealth management businesses. Adjusted net interest and trading income declined by CHF 535 million, mainly as a result of reductions in Corporate Center – Non-core and Legacy Portfolio as well as Corporate Center – Core Functions, partly offset by higher revenues in the Investment Bank. Adjusted other income decreased by CHF 108 million, mainly due to lower net gains on financial investments available-for-sale. Adjusted operating expenses decreased by CHF 938 million to CHF 23,689 million, mainly due to a decline of CHF 848 million in charges for provisions for litigation, regulatory and similar matters as well as a CHF 199 million reduction in personnel expenses, partly offset by CHF 110 million higher other non-personnel expenses. Furthermore, UBS recorded a net tax benefit of CHF 110 million compared with a net tax expense of CHF 461 million in the prior year.

Wealth Management: profit before tax was CHF 2,247 million in 2013, a decrease of CHF 160 million compared with CHF 2,407 million in 2012. Operating expenses included restructuring charges of CHF 178 million in 2013, while the prior year included a credit to personnel expenses of CHF 358 million related to changes to UBS's pension and retiree benefit plans as well as restructuring charges of CHF 26 million. Adjusted[3] for these items, profit before tax increased by CHF 350 million to CHF 2,425 million, reflecting CHF 522 million higher operating income, partly offset by a CHF 172 million increase in adjusted operating expenses, which included a charge in relation to the Swiss-UK tax agreement of CHF 107 million. The gross margin on invested assets declined by 1 basis point to 88 basis points. Net new money was CHF 35.9 billion compared with CHF 26.3 billion in the prior year.

Wealth Management Americas: profit before tax was USD 927 million in 2013 compared with USD 638 million in 2012. Adjusted[3] for the effects of restructuring in both years as well as a credit in 2012 related to changes to UBS's retiree benefit plans in the US, profit before tax increased to USD 991 million from USD 635 million. The adjusted result reflected a 12% increase in revenues due to higher

[3] Adjusted figures exclude each of the following items, to the extent applicable, on a Group and business division level: for 2013, an own credit loss of CHF 283 million, gains on sales of real estate of CHF 288 million, net losses related to the buyback of debt in public tender offers of CHF 167 million, a gain on the sale of Global Asset Management's Canadian domestic business of CHF 34 million, a net gain on the sale of the remaining proprietary trading business of CHF 31 million and net restructuring charges of CHF 772 million; for 2012, an own credit loss of CHF 2,202 million, gains on sales of real estate of CHF 112 million, net restructuring charges of CHF 371 million, a credit related to changes to UBS's Swiss pension plan of CHF 730 million, a credit related to changes to UBS's retiree benefit plans in the US of CHF 116 million and the impairment of goodwill and other non-financial assets of CHF 3,064 million.

recurring income and a 7% increase in operating expenses due to higher financial advisor related compensation, partly offset by lower charges for provisions for litigation, regulatory and similar matters. Net new money inflows were USD 19.0 billion compared with USD 22.1 billion in the prior year.

Retail & Corporate: profit before tax decreased to CHF 1,458 million in 2013 from CHF 1,827 million in the prior year, mainly as 2012 included a credit to personnel expenses of CHF 287 million related to changes to UBS's Swiss pension plan. Adjusted[3] for this and restructuring charges of CHF 54 million in 2013 and CHF 3 million in 2012, profit before tax decreased by CHF 31 million to CHF 1,512 million, as higher operating expenses were only partly offset by higher operating income. The annualized net new business volume growth rate was 1.8% in 2013.

Global Asset Management: profit before tax was CHF 576 million in 2013 compared with CHF 569 million in 2012. Adjusted[3] for a gain on the sale of the Canadian domestic business in 2013, restructuring charges in 2013 and 2012 as well as credits related to changes to pension and benefit plans in 2012, profit before tax was CHF 585 million compared with CHF 543 million in the prior year. This increase was due to higher performance fees coupled with lower operating expenses. Excluding money market flows, net new money outflows were CHF 4.8 billion compared with CHF 5.9 billion in the prior year.

Investment Bank: profit before tax was CHF 2,300 million in 2013 compared with CHF 267 million in 2012. Adjusted[3] for a gain from the sale of the remaining proprietary trading business in 2013 and restructuring charges in both years as well as prior year credits related to changes to UBS's retiree benefit plans in the US and Swiss pension plan, profit before tax was CHF 2,455 million compared with CHF 398 million. This increase was largely due to higher revenues in Investor Client Services and lower operating expenses. Fully applied risk-weighted assets ("RWA") decreased by CHF 2 billion to CHF 62 billion.

Corporate Center – Core Functions: recorded a loss before tax of CHF 1,854 million in 2013 compared with CHF 3,698 million in the prior year. The 2013 loss was mainly due to treasury income remaining in Corporate Center – Core Functions of negative CHF 902 million, an own credit loss of CHF 283 million and operating expenses remaining in Corporate Center – Core Functions of CHF 847 million. These negative effects were partly offset by gains on sales of real estate of CHF 288 million.

Corporate Center – Non-core and Legacy Portfolio: recorded a loss before tax of CHF 2,312 million in 2013 compared with a loss of CHF 3,764 million in the prior year. The 2013 loss was mainly due to total operating expenses of CHF 2,660 million which included charges of CHF 1,320 million for provisions for litigation, regulatory and similar matters. Operating income was CHF 347 million, mainly due to gains from the revaluation of the option to acquire the SNB StabFund's equity, prior to UBS's exercise of the option. Fully applied RWA decreased by CHF 39 billion to CHF 64 billion.

Balance sheet: As of 31 December 2013, UBS's balance sheet assets stood at CHF 1,010 billion, a decrease of CHF 250 billion or 20% from 31 December 2012, primarily due to a reduction in positive replacement values (**PRV**) in Corporate Center – Non-core and Legacy Portfolio. Funded assets, which represent total assets excluding PRV and collateral delivered against over-the-counter derivatives, decreased by CHF 66 billion to CHF 739 billion, mainly due to reductions in both collateral trading and trading portfolio assets, primarily reflecting the ongoing execution of UBS's strategy. Currency effects reduced funded assets by approximately CHF 18 billion.

Capital management: As of 31 December 2013, UBS's phase-in CET1 capital ratio was 18.5%, an increase of 3.2 percentage points compared with 15.3% as of 31 December 2012. The significant improvement in CET1 capital ratio was mainly due to a CHF 33.2 billion reduction in RWA, despite incremental RWA of CHF 22.5 billion resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA. A CHF 2.1 billion increase in CET1 capital, consistent with UBS's strategy of high-quality capital accretion, also contributed to the increase in the CET1 capital ratio. UBS's phase-in total capital ratio stood at 22.2% as of 31 December 2013 compared with 18.9% as of 31 December 2012. This improvement was primarily due to the aforementioned reduction in RWA and the increase in CET1 capital. On a fully applied basis, the CET1 capital ratio increased 3.0 percentage points to 12.8% during the year. The fully applied total capital ratio increased 4.0 percentage points to 15.4%.

UBS's phase-in total Swiss SRB leverage ratio increased 102 basis points to 4.65% as of 31 December 2013 from 3.63% as of 31 December 2012. This increase was mainly due to a CHF 189 billion decrease in the total adjusted exposure, also known as the leverage ratio denominator, resulting in an improvement of 70 basis points to the leverage ratio. In addition, the increases in CET1 and loss-absorbing capital in 2013 contributed 32 basis points to the improvement in the leverage ratio on a phase-in basis.

Invested assets: Group invested assets[4] stood at CHF 2,390 billion at the end of 2013, compared with CHF 2,230 billion at the end of 2012. In Wealth Management, invested assets were CHF 886 billion as of 31 December 2013, representing an increase of CHF 65 billion from 31 December 2012. Net new money inflows of CHF 36 billion and positive market performance of CHF 34 billion were slightly offset by negative currency translation effects of CHF 4 billion. In Wealth Management Americas, invested assets were CHF 865 billion as of 31 December 2013, an increase of CHF 93 billion from 31 December 2012. In US dollar terms, invested assets increased by USD 127 billion to USD 970 billion, reflecting positive market performance of USD 108 billion and continued strong net new money inflows of USD 19 billion. In Global Asset Management, invested assets were CHF 583 billion as of 31 December 2013 compared with CHF 581 billion as of 31 December 2012. Net new money outflows of CHF 20 billion, combined with negative currency translation effects of CHF 15 billion and a reduction of CHF 7 billion related to the sale of the Canadian domestic business, were more than offset by positive market performance of CHF 44 billion.

Change in UBS AG's Board of Directors, publication of agenda items for the Annual General Meeting on May 7, 2014 and submission of the amended Articles of Association for shareholders' approval

On 1 April 2014, UBS announced that Rainer-Marc Frey has decided not to seek re-election to the Board of Directors (**BoD**) of UBS AG at this year's Annual General Meeting of shareholders (**AGM**).

UBS also published the agenda for the AGM which will be held on 7 May 2014. At the AGM the BoD will propose that shareholders approve amended Articles of Association to implement the new Ordinance Against Excessive Compensation in Listed Stock Corporations (**Ordinance**). The Ordinance, enacted by the Swiss Federal Council to implement the Minder initiative, entered into force on 1 January 2014, although certain transitional provisions apply. UBS will propose that shareholders vote on the fixed compensation for the Group Executive Board (**GEB**) for the following financial year, and on compensation for members of the BoD for the period up to the next AGM. However, UBS will propose that the vote on the variable compensation for the GEB be taken based on the results of the preceding financial year.

In compliance with the Ordinance, each member of the Human Resources and Compensation Committee will now be subject to annual election at the AGM. Voting on the compensation payable to the BoD and the GEB will be binding, and will take place for the first time at the 2015 AGM.

3.5 Trend Information

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

[4] Group invested assets includes invested assets for Retail & Corporate.

4. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES OF UBS AG

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

UBS AG operates under a strict dual board structure, as mandated by Swiss banking law. The Board of Directors (**BoD**) decides on the strategy of the Group upon the recommendation of the Group Chief Executive Officer (**Group CEO**), and supervises and monitors the business, 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 the Group, 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 AG with their annexes govern the authorities and responsibilities of the two bodies.

4.1 Board of Directors

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

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

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

Members of the Board of Directors

Member and business address	Title	Term of office	Current principal positions outside UBS AG
Axel A. Weber UBS AG, Bahnhofstrasse	Chairman	2014	Member of the board of the Institute of International Finance and the International Monetary Conference; member of the European Banking Group, the European Financial Services Roundtable and the Group of Thirty, Washington, D.C.; research fellow at the Center for Economic Policy Research, London, and the Center for Financial Research, Cologne; senior research fellow at the Center for Financial Studies, Frankfurt/Main; member of the Monetary Economics and International Economics Councils of the leading association of German-speaking economists, the *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 IMD Foundation, Lausanne and of the International Advisory Panel of the Monetary Authority of Singapore

45, CH-8001 Zurich			
Michel Demaré Syngenta International AG, Schwarzwaldallee 215, CH-4058 Basel	Independent Vice Chairman	2014	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
David Sidwell UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Senior Independent Director	2014	Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; Chairman of the board of Village Care, New York; Director of the National Council on Aging, Washington D.C.
Reto Francioni Deutsche Börse AG, D-60485 Frankfurt am Main	Member	2014	CEO of Deutsche Börse AG and holding 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 Instituto de Empresa, the Board of Trustees of the Goethe Business School; the Steering Committee of the Project "Role of Financial Services in Society", World Economic Forum, the Franco-German Roundtable, the Strategic Advisory Group of VHV Insurance
Rainer-Marc Frey Office of Rainer-Marc Frey, Seeweg 39, CH-8807 Freienbach	Member	2014	Founder of Horizon21 AG; Chairman of Horizon21 AG, its holding company and related entities and subsidiaries; member of the board of DKSH Group, Zurich, and of the Frey Charitable Foundation, Freienbach; Chairman of Lonrho Holdings Ltd. and Vice Chairman of its operating company
Ann F. Godbehere UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2014	Board member and Chairperson of the Audit Committee of Prudential plc, Rio Tinto plc, Rio Tinto Limited, London. Member of the board of Arden Holdings Ltd., Bermuda, and British American Tobacco plc.
Axel P. Lehmann Zurich Insurance Group, Mythenquai 2, CH-8002 Zurich	Member	2014	Member of the Group Executive Committee, Group Chief Risk Officer and Regional Chairman Europe of Zurich Insurance Group, Zurich; Chairman of the board of Farmers Group, Inc.; Chairman of the board of the Institute of Insurance Economics at the University of St. Gallen; former Chairman and member of the Chief Risk Officer Forum; member of the board of Economiesuisse
Helmut Panke UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2014	Member of the board and Chairperson of the Regulatory and Public Policy Committee of Microsoft Corporation; member of the board and Chairperson of the Safety & Risk Committee of Singapore Airlines Ltd.; member of the Supervisory Board of Bayer AG
William G. Parrett UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Member	2014	Member of the board and Chairperson of the Audit Committee of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc.; member of the board of iGATE. Past Chairman of the board of the United States Council for International Business and of United Way Worldwide; member of the Carnegie Hall Board of Trustees
Isabelle Romy Froriep, Bellerivestrasse 201, CH-8034 Zurich	Member	2014	Partner at Froriep, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; member and Vice Chairman of the Sanction Commission of the SIX Swiss Exchange
Beatrice Weder di Mauro Johannes Gutenberg-University Mainz, Jakob Welder-Weg 4, D-55099 Mainz	Member	2014	Professor at the Johannes Gutenberg University, Mainz; research fellow at the Center for Economic Policy Research, London; member of the board of Roche Holding Ltd., Basel, and Robert Bosch GmbH, Stuttgart. Member of the Corporate Governance Commission of the German Government and the Expert Group of European Commission on Debt Redemption Fund and Eurobills
Joseph Yam	Member	2014	Executive Vice President of the China Society for Finance and Banking; member of the international advisory councils of a number of government and academic institutions. Member of the board of Johnson Electric Holdings Limited and of

UBS AG, Bahnhofstrasse 45, CH-8001 Zurich			UnionPay International Co., Ltd.

On 1 April 2014, UBS announced that Rainer-Marc Frey has decided not to seek re-election to the BoD of UBS AG at this year's AGM.

Organizational principles and structure

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

The BoD committees comprise the Audit Committee, the Corporate Responsibility Committee, the Governance and Nominating Committee, the Human Resources and Compensation Committee and the Risk Committee. The BoD has also established an ad-hoc committee on strategy and an ad-hoc special committee.

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 AG's and UBS Group's annual financial statements and for reviewing the quarterly financial statements.

The function of the AC is to serve as an independent and objective body with oversight of the following: (i) UBS AG's and UBS Group's accounting policies, financial reporting and disclosure controls and procedures, (ii) the quality, adequacy and scope of external audit, (iii) UBS AG's and UBS Group'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 and the Risk Committee.

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

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

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

4.2 Group Executive Board

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

Members of the Group Executive Board

Member and business address	**Function**

Sergio P. Ermotti UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Executive Officer
Markus U. Diethelm UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group General Counsel
Lukas Gähwiler UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer UBS Switzerland, Chief Executive Officer Retail & Corporate
Ulrich Körner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer Global Asset Management, Chief Executive Officer UBS Group EMEA
Philip J. Lofts UBS AG, 677 Washington Boulevard, Stamford, CT 06901 USA	Group Chief Risk Officer
Robert J. McCann UBS AG, 1200 Harbor Boulevard, Weehawken, NJ 07086 USA	Chief Executive Officer Wealth Management Americas, Chief Executive Officer UBS Group Americas
Tom Naratil UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Financial Officer, Group Chief Operating Officer
Andrea Orcel UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Chief Executive Officer Investment Bank
Chi-Won Yoon UBS AG, 2 International Finance Centre 52/F, 8 Finance Street, Central, Hong Kong	Chief Executive Officer UBS Group Asia Pacific
Jürg Zeltner UBS 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 AG, if any, of BoD members, please see section entitled "Members of the Board of Directors" above) and may have economic or other private interests that differ from those of UBS AG. Potential conflicts of interest may arise from these positions or interests. UBS AG is confident that its internal corporate governance practices and its compliance with relevant legal and regulatory provisions reasonably ensure that any conflicts of interest of the type described above are appropriately managed, including through disclosure when appropriate.

5. AUDITORS

Based on article 31 of the Articles of Association, UBS AG shareholders elect the auditors for a term of office of one year. At the AGM of 28 April 2011, 3 May 2012 and 2 May 2013, Ernst & Young Ltd., Aeschengraben 9, CH-4002 Basel (**Ernst & Young**) were elected as auditors for the financial statements of UBS AG and the consolidated financial statements of the UBS Group for a one-year term.

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

6. MAJOR SHAREHOLDERS OF UBS AG

Under the Swiss Federal Act on Stock Exchanges and Securities Trading of 24 March 1995, as amended (the **Swiss Stock Exchange Act**), anyone holding shares in a company listed in Switzerland, or 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% of the voting rights, whether or not such rights may be exercised.

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

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

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

UBS holds UBS AG shares primarily to hedge employee share and option participation plans. In addition, the Investment Bank holds a limited number of UBS AG shares in its capacity as a liquidity provider to the equity index futures market and as a market-maker in UBS AG shares and derivatives on UBS AG shares. Furthermore, to meet client demand, UBS has issued structured debt instruments linked to UBS 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 2013, UBS held 73,800,252 UBS AG shares, corresponding to 1.9% of the total share capital of UBS AG. At the same time, UBS had disposal positions relating to 284,975,843 voting rights of UBS AG, corresponding to 7.4% of the total voting rights of UBS AG. 7.0% of this consisted of voting rights on shares deliverable in respect of employee awards.

Further details on the distribution of UBS AG's shares, also by region and shareholders' type, and on the number of shares registered, not registered and carrying voting rights as of 31 December 2013 can be found in the Annual Report 2013, on pages 258-261 (inclusive) of the English version.

7. FINANCIAL INFORMATION CONCERNING UBS AG'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

7.1 Historical Annual Financial Information

A description of UBS AG's and UBS Group's assets and liabilities, financial position and profits and losses for financial year 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 AG's financial year is the calendar year.

The annual financial reports form an essential part of UBS AG's reporting. They include the audited consolidated financial statements of UBS Group, prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and the audited financial statements of UBS AG (Parent Bank), prepared in order to meet Swiss regulatory requirements and in compliance with Swiss GAAP. The Financial information section of the annual reports also includes certain additional disclosures required under US Securities and Exchange Commission regulations. The annual reports also include discussions and analysis of the financial and business results of UBS, its business divisions and the Corporate Center.

7.2 Auditing of Historical Annual Financial Information

The consolidated financial statements of UBS Group and the financial statements of UBS AG (Parent Bank) for financial years 2012 and 2013 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). The reports of the auditors on the financial statements of UBS AG (Parent Bank) can be found on pages 483-484 (inclusive) of the Annual Report 2012 and on pages 532-533 (inclusive) of the Annual Report 2013 (Financial information section, English version).

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

7.3 Incorporation by Reference

UBS AG's Annual Report 2012 and Annual Report 2013 are fully incorporated in, and form an integral part of, this document.

7.4 Litigation, Regulatory and Similar Matters

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

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

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

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

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

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 22a to the audited consolidated financial statements included in UBS AG's Annual Report 2013. It is not practicable to provide an aggregate estimate of liability for UBS's litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require UBS to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although UBS therefore cannot provide a numerical estimate of the future losses that could arise from the class of litigation, regulatory and similar matters, it can confirm that it believes that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining UBS's capital requirements. Information concerning UBS's capital requirements and the calculation of operational risk for this purpose is included in the "*Capital management*" and "*Risk management and control*" sections of UBS AG's Annual Report 2013.

Provisions for litigation, regulatory and similar matters by segment [1, 2]

CHF million	WM	WMA	R&C	Gl AM	IB	CC – CF	CC – NcLP	**Total 31.12.13**	Total 31.12.12
Balance at the beginning of the year	130	170	29	7	28	338	732	**1,432**	482
Additions from acquired companies					8 [3]			**8**	
Increase in provisions recognized in the income statement	114	65	55	1	16	203	1,334	**1,788**	2,686
Release of provisions recognized in the income statement	(18)	(25)	(2)		(7)	(34)	(7)	**(93)**	(81)

Provisions used in conformity with designated purpose	(53)	(149)	(7)	(5)	(16)	(4)	(1,184)	**(1,417)**	(1,685)
Reclassifications	(7)		7		(6)	0		**(6)**	43
Foreign currency translation / unwind of discount	(1)	(5)			(2)	(14)	(67)	**(89)**	(13)
Balance at the end of the year	165	56	82	3	22	488	808	**1,622**	1,432

[1] WM = Wealth Management; WMA = Wealth Management Americas; R&C = Retail & Corporate; Gl AM = Global Asset Management; IB = Investment Bank; CC-CF = Corporate Center-Core Functions; CC-NcLP = Non-core and Legacy Portfolio. [2] Provisions, if any, for the matters described in (a) item 5 of this section are recorded in Wealth Management, (b) items 2 and 8 of this section are recorded in Wealth Management Americas, (c) item 12 of this section are recorded in the Investment Bank, (d) items 4, 9 and 11 of this section are recorded in Corporate Center – Core Functions and (e) items 3 and 7 of this section are recorded in Corporate Center – Non-core and Legacy Portfolio. Provisions for the matters described in items 1 and 10 of this section are allocated between Wealth Management and Retail & Corporate, and provisions for the matter described in item 6 of this section are allocated between the Investment Bank and Corporate Center – Non-core and Legacy Portfolio. [3] Related to the acquisition of Link Investimentos. Refer to "Note 31 Business combinations" in the Financial Information section of the Annual Report 2013 for more information.

1. Inquiries regarding cross-border wealth management businesses

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

2. Lehman principal protection notes

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

UBS's balance sheet at 31 December 2013 reflected a provision with respect to pending arbitration matters described in this item 2 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

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

From 2002 through 2007, prior to the crisis in the US residential loan market, UBS was a substantial issuer and underwriter of US residential mortgage-backed securities (**RMBS**) and was a purchaser and seller of US residential mortgages. A subsidiary of UBS, UBS Real Estate Securities Inc. (**UBS RESI**), acquired pools of residential mortgage loans from originators and (through an affiliate) deposited them into 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 totaled 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.

Securities lawsuits concerning disclosures in RMBS offering documents: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits related to approximately USD 13 billion in original face amount of RMBS underwritten or issued by UBS. Some of the lawsuits are in their early stages and have not advanced beyond the motion to dismiss phase; others are in varying stages of discovery. Of the USD 13 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 3 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a 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 settlement announced in April 2013 by a third-party issuer received final approval by the district court in December 2013. The settlement, which is subject to appeal, reduced the original face amount of RMBS at issue in these cases from USD 37 billion to USD 13 billion, and the original face amount of RMBS at issue in cases involving third-party issuers from USD 34 billion to USD 10 billion, as noted above. The third-party issuer will fund the settlement at no cost to UBS. In January 2014, certain objectors to the settlement filed a notice of appeal from the district court's approval of the settlement.

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

Loan repurchase demands related to sales of mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust. UBS has been notified by certain institutional purchasers and insurers of mortgage loans and RMBS of their contention that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. The table below summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 5 March 2014. 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[1]

USD million	2006-2008	2009	2010	2011	2012	**2013**	**2014, through 5 March**	Total
Resolved demands								
Actual or agreed loan repurchases / make whole payments by UBS	12	1						13
Demands rescinded by counterparty	110	104	19	304	237			774
Demands resolved in litigation	1	21						21
Demands expected to be resolved by third parties								
Demands resolved or expected to be resolved through enforcement of indemnification rights against third-party originators		77	2	45	128	**99**		351
Demands in dispute								
Demands in litigation			346	732	1,041			2,118
Demands in review by UBS				2	2	**3**		8
Demands rebutted by UBS but not yet rescinded by counterparty		1	2	1	17	**515**	**3**	504
Total	122	205	368	1,084	1,424	**618**	**3**	3,825

[1] Loans submitted by multiple counterparties are counted only once.

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

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

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

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: In 2012, certain RMBS trusts filed an action in the Southern District of New York (**Trustee Suit**) seeking to enforce UBS RESI's obligation to repurchase loans with an original principal balance of approximately USD 2 billion for which Assured Guaranty Municipal Corp. (**Assured Guaranty**), a financial guaranty insurance company, had previously demanded repurchase. The case is in discovery. Related litigation brought by Assured Guaranty was resolved in May 2013. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. At this time, UBS does not expect that it will be required to make payment for the majority of loan repurchase demands at issue in the Trustee Suit for at least the following reasons: (1) UBS reviewed the origination file and/or servicing records for the loan and concluded that the allegations of breach of representations and warranties are unfounded, or (2) a surviving originator is contractually liable for any breaches of representations and warranties with respect to loans that it originated. UBS has indemnification rights in connection with approximately half of the USD 2 billion in original principal balance of loans at issue in this suit (reflected in the "Demands in litigation" category in the table above).

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

In December 2013, Residential Funding Company LLC (**RFC**) filed a complaint in New York Supreme Court against UBS RESI asserting claims for breach of contract and indemnification in connection with loans purchased from UBS RESI with an original principal balance of USD 460 million that were 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 below, UBS's balance sheet at 31 December 2013 reflected a provision of USD 807 million with respect to matters described in this item 3. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

UBS has received requests 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 US Department of Justice, Criminal Division, Fraud Section) and the SEC for information relating to its practices in connection with purchases and sales of mortgage-backed securities. UBS is cooperating with the authorities in these matters, which are in an early stage. Numerous other banks reportedly have received similar requests.

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

USD million	**31.12.13**	31.12.12
Balance at the beginning of the year	**658**	104
Increase in provision recognized in the income statement	**1,359**	554
Release of provision recognized in the income statement	**(1)**	0
Provision used in conformity with designated purpose	**(1,208)**	0
Balance at the end of the year	**807**	658

4. Claims related to UBS disclosure

A putative consolidated class action has been filed in the United States District Court for the Southern District of New York against UBS, a number of current and former directors and senior officers and certain banks that underwrote UBS's May 2008 Rights Offering (including UBS Securities LLC) alleging violation of the US securities laws in connection with UBS's disclosures relating to UBS's positions and losses in mortgage-related securities, UBS's positions and losses in auction rate securities, and UBS's US crossborder business. In 2011, the court dismissed all claims based on purchases or sales of UBS ordinary shares made outside the US, and, in 2012, the court dismissed with prejudice the remaining claims based on purchases or sales of UBS ordinary shares made in the US for failure to state a claim. Plaintiffs have appealed the court's decision. UBS, a number of senior officers and employees and various UBS committees have also been sued in a putative consolidated class action for breach of fiduciary duties brought on behalf of current and former participants in two UBS Employee Retirement

Income Security Act (**ERISA**) retirement plans in which there were purchases of UBS stock. In 2011, the court dismissed the ERISA complaint. In 2012, the court denied plaintiffs' motion for leave to file an amended complaint. On appeal, the Second Circuit upheld the dismissal of all counts relating to one of the retirement plans. With respect to the second retirement plan, the Court upheld the dismissal of some of the counts, and vacated and remanded for further proceedings with regard to the counts alleging that defendants had violated their fiduciary duty to prudently manage the plan's investment options, as well as the claims derivative of that duty.

In 2012, a consolidated complaint was filed in a putative securities fraud class action pending in federal court in Manhattan against UBS AG and certain of its current and former officers relating to the 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 December 2013, the district court granted UBS's motion to dismiss the complaint in its entirety. Plaintiffs have filed a notice of appeal.

5. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC (**BMIS**) investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier (**CSSF**). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without however being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals have been filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In the US, the BMIS Trustee has filed claims against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in 2010 against 23 defendants, including UBS entities, the Luxembourg and offshore funds concerned and various individuals, including current and former UBS employees. The total amount claimed against all defendants in this action was not less than USD 2 billion. A second claim was filed in 2010 against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants was not less than USD 555 million. Following a motion by UBS, in 2011, the District Court dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In June 2013, the Second Circuit Court of Appeals rejected the BMIS Trustee's appeal against that ruling and upheld the District Court's decision. The BMIS Trustee has sought leave to appeal to the US Supreme Court, which has invited the Solicitor General of the United States to file a brief expressing the views of the United States as to whether review should be granted. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds.

6. Transactions with Italian public sector entities

A number of transactions that UBS Limited and UBS AG respectively entered into with public sector entity counterparties in Italy have been called into question or become the subject of legal proceedings and claims for damages and other awards. In Milan, in 2012, civil claims brought by the City of Milan against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with Milan between 2005 and 2007 were settled without admission of liability. In 2012, the criminal court in Milan issued a judgment convicting two current UBS employees and one former employee, together with employees from the three other banks, of fraud against a public entity in relation to the same bond issue and the execution, and subsequent restructuring, of the related derivative transactions. In the same proceedings, the Milan criminal court also found UBS Limited and three other banks liable for the administrative offense of failing to have in place a business organizational model capable of preventing the criminal offenses of which its employees were convicted. The sanctions against UBS Limited, which are not effective until appeals are exhausted, are confiscation of the alleged level of profit flowing from the criminal findings (EUR 16.6 million), a fine in respect of the finding of the administrative offense (EUR 1 million) and payment of legal fees. UBS has previously provided for this potential exposure in the amount of EUR 18.5 million. UBS Limited and the individuals appealed that judgment, and in March 2014, the Milan Court of Appeal handed down its judgment in short form. It overturned all findings of liability against UBS Limited and convictions of the UBS individuals and acquitted them, stating that the conduct did not occur. The court indicated that it would issue a full judgment within 90 days.

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

7. Kommunale Wasserwerke Leipzig GmbH (**KWL**)

In 2006 and 2007, KWL entered into a series of Credit Default Swap (**CDS**) transactions with bank swap counterparties, including UBS. UBS entered into back-to-back CDS transactions with the other counterparties, Depfa Bank plc (**Depfa**) and Landesbank Baden-Württemberg (**LBBW**), in relation to their respective swaps with KWL. As a result of the KWL CDS transactions and the back-to-back CDS transactions with Depfa and LBBW, UBS and UBS Limited are owed a total amount of approximately USD 319.8 million, plus interest, which remains unpaid. Specifically, under the CDS contracts between KWL and UBS, the last of which were terminated by UBS in 2010, a net sum of approximately USD 137.6 million, plus interest, has fallen due from KWL but not been paid. Earlier in 2010, UBS issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transaction between KWL and UBS is valid, binding and enforceable as against KWL. The English court ruled in 2010 that it has jurisdiction and will hear the proceedings and UBS issued a further claim seeking declarations concerning the validity of its early termination of the remaining CDS transactions with KWL. KWL withdrew its appeal from that decision and the civil dispute is now proceeding before the English court. UBS has added its monetary claim to the proceedings. KWL is defending against UBS's claims and has served a counterclaim which also joins UBS Limited and Depfa to the proceedings. As part of its assertions, KWL claims damages of at least USD 68 million in respect of UBS's termination of some of the CDS contracts, whilst disputing that any monies are owed to UBS pursuant to another CDS contract. UBS, UBS Limited and Depfa are defending against KWL's counterclaims, and Depfa has asserted additional claims against UBS and UBS Limited. Both KWL and Depfa have mutually exclusive claims for payment of USD 32.6 million which has previously been paid by Depfa to UBS Limited. The trial is due to start in April 2014.

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

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

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

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

8. Puerto Rico

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (**System**) against over 40 defendants, including UBS Financial Services Inc. of Puerto Rico (**UBS PR**) and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately 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 March 2013, the case was dismissed by the Puerto Rico Court of First Instance on the grounds that plaintiffs did not have standing to bring the claim. That dismissal was overturned by the Puerto Rico Court of Appeals in September 2013. In February 2014, UBS's petition for appeal was denied by the Supreme Court of Puerto Rico, and UBS is filing motions for reconsideration. Also, in October 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives following a hearing that took place in late 2012, 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 May 2012. Additionally, declines in Puerto Rico municipal bond and closed-end fund prices since August 2013 have led to multiple regulatory inquiries, customer complaints and arbitrations filed by clients in Puerto Rico who own those securities. A shareholder derivative action also was filed in February 2014 against various UBS entities and current and certain former directors of the closed-end funds, alleging hundreds of millions in losses in the funds. 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.

UBS's balance sheet at 31 December 2013 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. 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. LIBOR, foreign exchange, and benchmark rates

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

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

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

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

In June 2013, the MAS announced the results of its investigation of benchmark submissions by 20 banks, including UBS. The investigation related to various benchmark submissions, including the Singapore Interbank Offered Rates and the Swap Offered Rates, and covered the period from 2007 to 2011. The MAS found deficiencies in the governance, risk management, internal controls and surveillance systems for the banks' benchmark submission processes and directed the banks to correct the deficiencies and set aside additional statutory reserves with MAS at zero interest for one year. The MAS also announced proposed changes to its regulatory framework for financial benchmarks that are designed to enhance the integrity of the process for setting benchmarks.

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

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

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

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

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

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 transactions. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. The defendants (including UBS) have not yet filed responsive pleadings.

10. Swiss retrocessions

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

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

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

UBS's balance sheet at 31 December 2013 reflected a provision with respect to matters described in this item 10 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence as in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

11. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. (**Pactual**) by UBS to BTG Investments, LP (**BTG**), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately BRL 2.5 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. These assessments are being or will be challenged in administrative proceedings. BTG has also provided notice to UBS of several additional Pactual-related inquiries by the Brazilian tax authorities that relate to the period of UBS's ownership of Pactual, but involving substantially smaller amounts. In November and December 2013, approximately BRL 128 million in tax claims relating to the period for which UBS has indemnification obligations were submitted for settlement through amnesty programs announced by the Brazilian government in October 2013.

UBS's balance sheet at 31 December 2013 reflected a provision with respect to matters described in this item 11 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

12. Matters relating to the CDS market

In July 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 EU antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and

2009. UBS has submitted its response to the Statement of Objections. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. Between May 2013 and November 2013, several putative class action complaints were filed against twelve dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act. In January 2014, after the cases were consolidated for pretrial purposes in the Southern District of New York, plaintiffs filed a consolidated amended complaint. Plaintiffs allege that the defendants, Markit and ISDA 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 under the Sherman Act and common law on behalf of all purchasers and sellers of CDS that transacted directly with any of the dealer defendants since January 1, 2008 and seek unspecified trebled compensatory damages and other relief.

Besides the proceedings specified above under (1) through (12) no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which UBS AG is aware) which may have, or have had in the recent past, significant effects on UBS AG's and/or UBS Group's financial position or profitability, are or have been pending during the last twelve months until the date of this document.

1.1 *Material Contracts*

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

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

There has been no significant change in the financial or trading position of UBS Group since 31 December 2013.

There has been no material adverse change in the prospects of UBS AG since 31 December 2013.

8. SHARE CAPITAL

As reflected in its Articles of Association most recently registered with the Commercial Register of Zurich and the Commercial Register of Basel-City, UBS AG has (i) fully paid and issued share capital of CHF 384,200,206.90, divided into 3,842,002,069 registered shares with a par value of CHF 0.10 each (article 4), (ii) no authorized capital and (iii) conditional capital in the amount of CHF 51,875,915.60, comprising 518,759,156 registered shares with a par value of CHF 0.10 each (article 4a).

9. 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"); and

- The Articles of Association of UBS AG,

shall be maintained in printed format, for free distribution, at the offices of UBS AG for a period of twelve months after the publication of this document. In addition, the annual and quarterly reports of UBS AG are published on UBS's website, at www.ubs.com/investors or a successor address. The Articles of Association of UBS AG are also available on UBS's Corporate Governance website, at www.ubs.com/governance.

AMENDMENTS TO THE "DESCRIPTION OF THE GUARANTOR" SECTION

The "*Description of the Guarantor*" section starting on page 271 of the Base Prospectus is updated by the deletion of the paragraph "*Incorporation, Legislation, Legal Form, Duration, Name, Registered Office, Headquarters*" and its replacement with the following:

"Incorporation, Legislation, Legal Form, Duration, Name, Registered Office, Headquarters

The Guarantor was incorporated under Swiss law as a joint stock corporation (*Aktiengesellschaft*) under the name UBS Hypotheken AG (UBS Hypothèques SA) (UBS Mortgages Inc.), with unlimited duration, on 4 September 2009 in Zurich, Switzerland and is registered in the Commercial Register of the Canton of Zurich under the number CHE-115.045.822. The Guarantor is a subsidiary of UBS AG. The Guarantor's registered head office is located at c/o UBS AG, Bahnhofstrasse 45, CH-8001 Zurich, Switzerland (telephone number: +41 44 237 5683)."

AMENDMENTS TO THE "GENERAL INFORMATION" SECTION

The "*General Information*" section on pages 419-421 inclusive of the Base Prospectus is updated by the deletion of paragraphs (e) and (f) and their replacement with the following:

(e) There has been no material adverse change in the prospects of UBS AG since 31 December 2013 or the Guarantor since 31 December 2012 and no significant change in the financial or trading position of the UBS Group since 31 December 2013 and no significant change in the financial or trading position of the Guarantor since 30 June 2013.

(f) For the years ended 31 December 2011, 2012 and 2013 the consolidated financial statements of UBS AG were audited, without qualification, by Ernst & Young Ltd. Ernst & Young is a member of the Swiss Institute of Certified Accountants and Tax Consultants based in Zurich, Switzerland.

For the years ended 31 December 2011 and 31 December 2012, the financial statements of the Guarantor were audited, without qualification, by Ernst Young Ltd.

The date of this Base Prospectus Supplement to the Base Prospectus is 10 April 2014.

ANNEX

SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A – E (A.1 – E.7).

This Summary contains all the Elements required to be included in a summary for the Covered Bonds and the Issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in a summary because of the type of securities and Issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "Not Applicable".

Words and expressions defined in the "*Terms and Conditions of the Covered Bonds*" below or elsewhere in this Base Prospectus have the same meanings in this summary.

Section A – Introduction and warnings

Element	
A.1	• **This summary should be read as an introduction to the Base Prospectus and the Relevant Final Terms or Drawdown Prospectus.** • **Any decision to invest in any Covered Bonds should be based on a consideration of this Base Prospectus as a whole, including any documents incorporated by reference and the Relevant Final Terms or Drawdown Prospectus.** • **Where a claim relating to information contained in the Base Prospectus and the Relevant Final Terms or Drawdown Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Base Prospectus and the Relevant Final Terms or Drawdown Prospectus before the legal proceedings are initiated.** • **No civil liability will attach to the Issuer or the Guarantor in any such Member State solely on the basis of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Base Prospectus and the Relevant Final Terms or Drawdown Prospectus or, following the implementation of the relevant provisions of Directive 2010/73/EU in the relevant Member State, it does not provide, when read together with the other parts of this Base Prospectus and the Relevant Final Terms or Drawdown Prospectus, key information (as defined in Article 2.1(s) of the Prospectus Directive) in order to aid investors when considering whether to invest in the Covered Bonds.**
A.2	Certain Tranches of Covered Bonds with a denomination of less than €100,000 (or its equivalent in any other currency) may be offered in circumstances

Element	
	where there is no exemption from the obligation under the Prospectus Directive to publish a prospectus. Any such offer is referred to as a Public Offer in Belgium, France, Germany, Italy, Ireland, Spain and the United Kingdom. *Issue specific summary:* [Not Applicable – the Covered Bonds are not being offered to the public as part of a Public Offer.] [*Consent:* Subject to the conditions set out below, the Issuer consents to the use of this Base Prospectus in connection with a Public Offer of Covered Bonds by the Dealers[, [*names of specific financial intermediaries listed in Final T*erms,] [and] [each financial intermediary whose name is published on the Issuer's website (www.ubs.com/investors]) and identified as an Authorised Offeror in respect of the relevant Public Offer] [and any financial intermediary which is authorised to make such offers under [the Financial Services and Markets Act 2000, as amended, or other]applicable legislation implementing the Markets in Financial Instruments Directive (Directive 2004/39/EC) and publishes on its website the following statement (with the information in square brackets being completed with the relevant information): "*We, [insert legal name of financial intermediary], refer to the [insert title of relevant Covered Bonds] (the "**Covered Bonds**") described in the [Final Terms/Drawdown Prospectus] dated [insert date] [(the "**Final Terms**)/(the "**Drawdown Prospectus**") published by UBS AG, acting through its London Branch (the "**Issuer**"). We hereby accept the offer by the Issuer of its consent to our use of the Base Prospectus (as defined in the [Final Terms/Drawdown Prospectus]) in connection with the offer of the Covered Bonds in accordance with the Authorised Offeror Terms and subject to the conditions to such consent, each as specified in the Base Prospectus, and we are using the Base Prospectus accordingly.*" (each an **Authorised Offeror**). *Offer period:* The Issuer's consent referred to above is given for Public Offers of Covered Bonds during [*offer period for the issue to be specified here*] (the **Offer Period**). *Conditions to consent:* The conditions to the Issuer's consent [(in addition to the conditions referred to above)] are that such consent (a) is only valid during the Offer Period; (b) only extends to the use of this Base Prospectus to make Public Offers of the relevant Tranche of Covered Bonds [*specify each Relevant Member State in which the particular Tranche of Covered Bonds can be offered*] and (c) [*specify any other conditions applicable to the Public Offer of the particular Tranche, as set out in the Final Terms/Drawdown Prospectus (as applicable)*]. **AN INVESTOR INTENDING TO PURCHASE OR PURCHASING ANY COVERED BONDS IN A PUBLIC OFFER FROM AN AUTHORISED OFFEROR WILL DO SO, AND OFFERS AND SALES OF SUCH COVERED BONDS TO AN INVESTOR BY SUCH AUTHORISED**

Element		
		OFFEROR WILL BE MADE, IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF THE OFFER IN PLACE BETWEEN SUCH AUTHORISED OFFEROR AND SUCH INVESTOR INCLUDING ARRANGEMENTS IN RELATION TO PRICE, ALLOCATIONS, EXPENSES AND SETTLEMENT. THE RELEVANT INFORMATION WILL BE PROVIDED BY THE AUTHORISED OFFEROR AT THE TIME OF SUCH OFFER.] [This issue of Covered Bonds is being offered in a Public Offer in [*specify particular country/ies*].

Section B – Issuer and Guarantor

Element	Title	
B.1	Legal name of the Issuer	UBS AG, acting through its London Branch (the **Issuer**)
	Commercial name of the Issuer	UBS AG
B.2	Domicile/ legal form/ legislation/ country of incorporation	UBS AG is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations and Swiss Federal Banking Law as an *Aktiengesellschaft*, a corporation that has issued shares of common stock to investors.
B.4b	Trend information	As stated in the outlook statement presented in UBS AG's fourth quarter 2013 report, including unaudited consolidated financial statements of UBS Group and issued on 4 February 2014, at the start of the first quarter of 2014, many of the underlying challenges and geopolitical issues that UBS has previously highlighted remain. The continued absence of sustained and credible improvements to unresolved issues in Europe, continuing US fiscal and monetary policy issues, emerging markets fragility and the mixed outlook for global growth would make improvements in prevailing market conditions unlikely. This could cause traditional improvements in first quarter activity levels and trading volumes to fail to materialize fully and would generate headwinds for revenue growth, net interest margin and net new money. Despite possible headwinds, UBS expects that its wealth management businesses will continue to attract net new money, reflecting new and existing clients' steadfast trust in the firm. UBS will continue to execute on its strategy in order to ensure the firm's long-term success and to deliver sustainable returns for shareholders[5]
B.5	Description of the Group	UBS AG is the parent company of the Group. Neither the business divisions of UBS nor the Corporate Center are separate legal entities. They primarily operate out of UBS AG, through its branches worldwide. Where it is impossible or

[5] By virtue of the supplement dated 10 April 2014, the description of the trends has been updated

Element	Title	
		inefficient to operate out of the parent bank, businesses operate through local subsidiaries. This can be the case when required for legal, tax or regulatory purposes, or when legal entities join the Group through acquisition. UBS has announced that it intends to establish a new banking subsidiary of UBS AG in Switzerland and expects to implement this change in a phased approach starting in mid-2015. The scope of this potential future subsidiary's business is still being determined, but UBS AG would currently expect it to include the Retail & Corporate business division and likely the Swiss-booked business within the Wealth Management business division. In February 2014, the US Federal Reserve Board issued final rules for foreign banking organizations (**FBO**) operating in the US that include 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. UBS has until 1 July 2016 to establish an IHC.[6]
B.9	Profit forecast or estimate	Not Applicable. No profit forecasts or estimates are included in this Base Prospectus.
B.10	Audit report qualifications	Not Applicable. There are no qualifications in the auditors' reports on the audited financial statements for the years ended on 31 December 2012 and 31 December 2013, which are incorporated by reference into this document.[7]
B.12	**Selected Consolidated Financial Data**[8] UBS AG derived the following selected consolidated financial data from its annual report 2013, containing the audited consolidated financial statements of UBS Group, as well as additional unaudited consolidated financial data for the year ended 31 December 2013 (including comparative figures for the years ended 31 December 2012 and 2011). The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (**IASB**) and stated in Swiss francs (**CHF**).	

[6] By virtue of the supplement dated 10 April 2014, the description of the group has been updated

[7] By virtue of the supplement dated 10 April 2014, the audit report qualifications section has been updated

[8] By virtue of the supplement dated 10 April 2014, the selected consolidated financial information text and table and statements as to material adverse change and significant change have been updated

	As of or for the year ended		
CHF million, except where indicated	31.12.13	31.12.12	31.12.11
	audited, except where indicated		
Group results			
Operating income	27,732	25,423	27,788
Operating expenses	24,461	27,216	22,482
Operating profit / (loss) before tax	3,272	(1,794)	5,307
Net profit / (loss) attributable to UBS shareholders	3,172	(2,480)	4,138
Diluted earnings per share (CHF)	0.83	(0.66)	1.08
Key performance indicators, balance sheet and capital management, and additional information			
Performance			
Return on equity (RoE) (%) [1]	6.7*	(5.1)*	9.1*
Return on tangible equity (%) [2]	8.0*	1.6*	11.9*
Return on risk-weighted assets, gross (%) [3]	11.4*	12.0*	13.7*
Return on assets, gross (%) [4]	2.5*	1.9*	2.1*
Growth			
Net profit growth (%) [5]			(44.5)*
Net new money growth (%) [6]	1.4*	1.6*	1.9*
Efficiency			
Cost / income ratio (%) [7]	88.0*	106.6*	80.7*
Capital strength			
Common equity tier 1 capital ratio (%, phase-in) [8, 9]	18.5*	15.3*	
Common equity tier 1 capital ratio (%, fully applied) [8, 9]	12.8*	9.8*	
Swiss SRB leverage ratio (%, phase-in) [10]	4.7*	3.6*	
Balance sheet and capital management			
Total assets	1,009,860	1,259,797	1,416,962
Equity attributable to UBS shareholders	48,002	45,949	48,530
Total book value per share (CHF)	12.74*	12.26*	12.95*
Tangible book value per share (CHF)	11.07*	10.54*	10.36*
Common equity tier 1 capital (phase-in) [9]	42,179	40,032*	
Common equity tier 1 capital (fully applied) [9]	28,908	25,182*	
Risk-weighted assets (phase-in) [9]	228,557*	261,800*	
Risk-weighted assets (fully applied) [9]	225,153*	258,113*	
Total capital ratio (%, phase-in) [9]	22.2*	18.9*	
Total capital ratio (%, fully applied) [9]	15.4*	11.4*	
Additional information			
Invested assets (CHF billion) [11]	2,390	2,230	2,088
Personnel (full-time equivalents)	60,205*	62,628*	64,820*
Market capitalization	65,007*	54,729*	42,843*

*unaudited

[1] Net profit / loss attributable to UBS shareholders (annualized as applicable) / average equity attributable to UBS shareholders. [2] Net profit / loss attributable to UBS shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable) / average equity attributable to UBS shareholders less average goodwill and intangible assets. [3] Operating income before credit loss (expense) or recovery (annualized as applicable) / average risk-weighted assets. Based on Basel III risk-weighted assets (phase-in) for 2013, on Basel 2.5 risk-weighted assets for

2012 and on Basel II risk-weighted assets for 2011. [4] Operating income before credit loss (expense) or recovery (annualized as applicable) / average total assets. [5] Change in net profit attributable to UBS shareholders from continuing operations between current and comparison periods / net profit attributable to UBS shareholders from continuing operations of comparison period. Not meaningful and not included if either the reporting period or the comparison period is a loss period. [6] Net new money for the period (annualized as applicable) / invested assets at the beginning of the period. Group net new money includes net new money for Retail & Corporate and excludes interest and dividend income. [7] Operating expenses / operating income before credit loss (expense) or recovery. [8] Common equity tier 1 capital / risk-weighted assets. [9] Based on the Basel III framework as applicable to Swiss systemically relevant banks (SRB), which became effective in Switzerland on 1 January 2013. 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. Numbers for 31 December 2012 are on a pro-forma basis. [10] Swiss SRB Basel III common equity tier 1 capital and loss-absorbing capital / total adjusted exposure (leverage ratio denominator). The Swiss SRB leverage ratio came into force on 1 January 2013. Numbers for 31 December 2012 are on a pro-forma basis.[11] Group invested assets includes invested assets for Retail & Corporate.

	There has been no material adverse change in the prospects of UBS AG since 31 December 2013. There has been no significant change in the financial or trading position of UBS Group since 31 December 2013.	
B.13	Events impacting the Issuer's solvency	Not Applicable. No recent events particular to UBS AG have occurred, which are to a material extent relevant to the evaluation of UBS AG's solvency.
B.14	Dependence upon other group entities	UBS AG is the parent company of the UBS Group. As such, to a certain extent, it is dependent on certain of its subsidiaries.
B.15	Principal activities	According to article 2 of the Articles of Association of UBS AG, dated 7 February 2014 ("Articles of Association"), the purpose of UBS AG is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad UBS AG with its subsidiaries (together, "UBS Group", "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 and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centers.[9]
B.16	Controlling shareholders	As of 31 December 2013, the following shareholders (acting in their own name or in their capacity as nominees for other investors or beneficial owners) were registered in the share register with 3% or more of the total share capital of UBS AG: Chase Nominees Ltd., London (11.73%); GIC Private Limited, Singapore (6.39%); the US securities clearing organization DTC (Cede & Co.) New York, "The Depository Trust

[9] By virtue of the supplement dated 10 April 2014, the principal activities have been updated.

		Company" (5.89%); and Nortrust Nominees Ltd., London (3.75%). [10] The following are the most recent notifications of holdings in UBS AG's share capital filed in accordance with the Swiss Stock Exchange Act, based on UBS AG's registered share capital at the time of the disclosure: (i) 18 September 2013, Government of Singapore Investment Corp disclosed a change of its corporate name to GIC Private Limited and a holding of 6.40%; (ii) 30 September 2011, Norges Bank (the Central Bank of Norway), 3.04%; (iii) 17 December 2009, BlackRock Inc., New York, USA, 3.45%.
B.17	Credit ratings	The rating agencies Standard & Poor's, Fitch Ratings and Moody's have published credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to 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, and those from Moody's a number. These supplementary attributes indicate the relative position within the respective rating class. UBS AG has long-term senior debt ratings of A (stable outlook) from Standard & Poor's, A2 (stable outlook) from Moody's Investors Service, Inc. and A (stable outlook) from Fitch Ratings. The Covered Bonds issued under the Programme are expected on issue to be assigned a rating of "Aaa" by Moody's and "AAA" by Fitch Ratings, unless otherwise specified in the Relevant Final Terms or Drawdown Prospectus. The ratings from Fitch Ratings have been (or are expected to be) issued by Fitch Ratings Limited, and the ratings from Standard & Poor's have been (or are expected to be) issued by Standard & Poor's Credit Market Services Europe Limited. Both are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the **CRA Regulation**). The ratings of the Covered Bonds from Moody's have been (or are expected to be) issued by Moody's Investors Service Ltd, which is registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the CRA Regulation). The ratings of UBS AG have been (or are expected to be) issued by Moody's Investors Service, Inc., which is not established in the EEA and is not certified under the CRA Regulation, but the rating it has issued is endorsed by Moody's Investors Service Ltd., a credit rating agency established in the EEA and registered under the CRA

[10] By virtue of the supplement dated 10 April 2014, the shareholding percentage of the relevant shareholders has been updated.

		Regulation. 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.
B.18	Description of the Guarantee	The Covered Bonds will be irrevocably and (following the Guarantee Activation Date and the service of a Notice to Pay for the relevant amount on the Guarantor) unconditionally guaranteed by the Guarantor. The obligations of the Guarantor under the Guarantee will be direct, unsubordinated and unsecured obligations of the Guarantor and will rank *pari passu* and equally with all other present and future unsecured and unsubordinated obligations of the Guarantor.
B.19	Information about the Guarantor	
B.19 (B.1)	Legal name of the Guarantor	UBS Hypotheken AG
B.19 (B.2)	Domicile/ legal form/ legislation/ country of incorporation	The Guarantor is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations as an Aktiengesellschaft.
B.19 (B.4b)	Trend information	There are no clear trends affecting the Guarantor or the markets in which it operates. With respect to trends affecting UBS Group, as stated in the outlook statement presented in UBS AG's fourth quarter 2013 report, including unaudited consolidated financial statements of UBS Group and issued on 4 February 2014, at the start of the first quarter of 2014, many of the underlying challenges and geopolitical issues that UBS has previously highlighted remain. The continued absence of sustained and credible improvements to unresolved issues in Europe, continuing US fiscal and monetary policy issues, emerging markets fragility and the mixed outlook for global growth would make improvements in prevailing market conditions unlikely. This could cause traditional improvements in first quarter activity levels and trading volumes to fail to materialize fully and would generate headwinds for revenue growth, net interest margin and net new money. Despite possible headwinds, UBS expects that its wealth management businesses will continue to attract net new money, reflecting new and existing clients' steadfast trust in the firm. UBS will continue to execute on its strategy in order to ensure the firm's long-term success and to deliver sustainable returns for shareholders. [11]
B.19 (B.5)	Description of the Group	The Guarantor is a subsidiary of UBS AG, which is the parent company of the UBS Group. The objective of UBS's group structure is to support the business activities of the parent company within an efficient legal, tax, regulatory and funding framework. UBS operates as a group with five business divisions and a Corporate Centre. None of the individual

[11] By virtue of the supplement dated 10 April 2014, the description of the trends has been updated

		business divisions or the Corporate Center are legally independent entities; instead, they primarily perform their activities through the domestic and foreign offices of UBS AG, the parent bank. In cases where it is impossible or inefficient to operate via the parent bank, due to local legal, tax or regulatory provisions, or where additional legal entities join the Group through acquisition, the business is operated on location by legally independent Group companies. UBS has announced that it intends to establish a new banking subsidiary of UBS AG in Switzerland and expects to implement this change in a phased approach starting in mid-2015. The scope of this potential future subsidiary's business is still being determined, but UBS AG would currently expect it to include the Retail & Corporate business division and likely the Swiss-booked business within the Wealth Management business division. In February 2014, the US Federal Reserve Board issued final rules for foreign banking organizations (**FBO**) operating in the US that include 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. UBS has until 1 July 2016 to establish an IHC. [12]
B.19 (B.9)	Profit forecast or estimate	Not Applicable. No profit forecasts or estimates have been made in this Base Prospectus.
B.19 (B.10)	Audit report qualifications	Not Applicable. There are no qualifications to the audit reports on the historical financial information incorporated by reference into this Base Prospectus.
B.19 (B.12)	**Selected key financial information:**	

Balance Sheet	**30-06-2013**	**31-12-2012**	**31-12-2011**
CHF			
Total assets	24,416,507	2,239,777,505	13,449,175
Total liabilities	23,977,117	2,239,105,260	12,982,497
Total shareholders' equity	439,390	672,245	466,678
Total liabilities and shareholders' equity	24,416,507,	2,239,777,505	13,449,175

Income Statement	**30-06-2013**	**31-12-2012**	**31-12-2011**
CHF			

[12] By virtue of the supplement dated 10 April 2014, the description of the group has been updated

Total operating income	53,904,750	109,836,019	64,075,427
Total operating expenses	53,616,436	109,257,676	63,752,287
Income tax expense	61,169	122,776	68,559
Net profit / (loss)	227,145	455,567	254,581

There has been no material adverse change in the prospects of the Guarantor since 31 December 2012.

There has been no significant change in the financial or trading position of the Guarantor since 30 June 2013.

B.19 (B.13)	Events impacting the Guarantor's solvency	Not Applicable for the Guarantor. There have been no recent events particular to the Guarantor which are to a material extent relevant to the evaluation of such Guarantor's solvency.
B.19 (B.14)	Dependence upon other Group entities	The Guarantor is a subsidiary of UBS AG, which is the parent company of the UBS Group. The Guarantor is therefore, to a certain extent, dependent on the UBS Group.
B.19 (B.15)	The Guarantor's Principal activities	The principal activity of the Guarantor is the issuance of guarantees for the benefit of holders of Covered Bonds issued by the Issuer, and the acquisition, holding, administration, management and liquidation of mortgage assets and other assets transferred to it as security for the claims acquired by it in connection therewith.
B.19 (B.16)	Controlling shareholders	As at 31 December 2013, UBS AG was registered in the share register of the Guarantor as the holder of 98 per cent. of the total share capital of the Guarantor.
B.19 (B.17)	Credit ratings	As at the date of this Base Prospectus, the Guarantor is not rated.

Section C – Securities

Element	**Title**	
C.1	Description of Covered Bonds/ISIN	The Covered Bonds described in this section are debt securities with a denomination of less than €100,000 (or its equivalent in any other currency). The Covered Bonds to be issued under the Programme may be fixed rate, floating rate or a

Element	Title	
		combination of the foregoing. ***Issue specific summary:*** The Covered Bonds are [£/€/U.S.$/CHF/*other*] [●] [[●] per cent./Floating Rate] Covered Bonds due [●]. International Securities Identification Number (**ISIN**): [●]
C.2	Currency	Subject to compliance with all applicable laws, regulations and directives, Covered Bonds may be issued in any currency agreed between the Issuer and the relevant Dealer at the time of issue. ***Issue specific summary:*** The currency of this Series of Covered Bonds is [Pounds Sterling (**£**)/Euro (**€**)/U.S. dollars (**U.S.$**)/Swiss Francs (**CHF**)/ *Other* (●)].
C.5	Restrictions on transferability	The Issuer and the Dealers have agreed certain restrictions on offers, sales and deliveries of Covered Bonds and on the distribution of offering material.
C.8	Rights attached to the Covered Bonds, including ranking and limitations on those rights	Covered Bonds issued under the Programme will have terms and conditions relating to, among other matters: ***Status*** The Covered Bonds will be direct, unsubordinated, unsecured and unconditional obligations of the Issuer which shall have the benefit of the Guarantee. The claims of Covered Bondholders as against the Guarantor are limited recourse obligations of the Guarantor. ***Taxation*** Payments in respect of the Covered Bonds will be made by the Issuer without withholding or deduction for, or on account of, taxes imposed by any governmental or other taxing authority unless such withholding or deduction is required by law. If any such taxes are required to be withheld by a Tax Jurisdiction (as defined in Condition 8 (*Taxation*)), the Issuer will pay additional amounts in respect of such amounts withheld or deducted subject to the customary exceptions. Under the terms of the Guarantee, the Guarantor will not be required to pay any additional amounts in respect of any amount withheld or deducted for, or on account of, any taxes from a payment by the Guarantor under the Guarantee. All payments in respect of the Covered Bonds will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or

Element	Title	
		agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. ***Guarantor's negative pledge*** The terms of the Guarantee in respect of Covered Bonds contains a negative pledge provision which prevents the Guarantor from creating or permitting to subsist any security interest upon the whole or any part of its assets (including, but not limited to, the Cover Pool Assets). ***Events of default*** The terms of the Covered Bonds will contain, amongst others, the following events of default: (a) default in payment by the Issuer of any principal or interest due in respect of the Covered Bonds, continuing for a specified period of time; (b) non-performance or non-observance by the Issuer of any of its other obligations under the Transaction Documents, in certain cases continuing for a specified period of time; (c) if the Issuer fails to comply with either Pre-Event Test, continuing for a specified period of time; and (d) events relating to the insolvency or winding up of the Issuer, each an **Issuer Event of Default** and: (e) default in payment by the Guarantor of any Guaranteed Amount due in respect of the Covered Bonds, continuing for a specified period of time; (f) non-performance or non-observance by the Guarantor of any of its other obligations under the conditions of the Covered Bonds or the Guarantee, in certain cases continuing for a specified period of time; (g) the Guarantor breaches the Amortisation Test on any Test Date following service of the Guarantee Activation Notice and a Notice to Pay; (h) events relating to the insolvency or winding up of the Guarantor; and (i) the Guarantee ceases to be in full force and effect, each a **Guarantor Event of Default**. ***Meetings*** The terms of the Covered Bonds will contain provisions for calling meetings of holders of such Covered Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders, including holders who did not attend and vote at the relevant meeting and

Element	Title	
		holders who voted in a manner contrary to the majority. ***Governing law*** The Covered Bonds (other than German Law Registered Covered Bonds) are governed by English law. The German Law Registered Covered Bonds are governed by the laws of the Federal Republic of Germany.
C.9	Interest/Redemption	***Interest*** Covered Bonds may or may not bear interest. Interest-bearing Covered Bonds will either bear interest payable at a fixed rate or a floating rate. *Issue specific summary:* [The Covered Bonds bear interest [from their date of issue/from [●]]at the fixed rate of [●] per cent. per annum. The yield of the Covered Bonds is [●] per cent. Interest will be paid [annually] in arrears on [●] in each year. The first interest payment will be made on [●]]. [The Covered Bonds bear interest [from their date of issue/from [●]]at floating rates calculated by reference to [LIBOR/EURIBOR/CHF LIBOR/BBSW/CDOR/HIBOR/JPY TSR/NIBOR/SHIBOR/STIBOR/SOR/U.S. Federal Funds Rate] [plus/minus] a margin of [●] per cent. Interest will be paid [semi-annually] in arrears on [●] and [●] in each year, subject to adjustment for non-business days. The first interest payment will be made on [●]. [The Covered Bonds do not bear any interest [and will be offered and sold at a discount to their nominal amount].] ***Redemption*** The terms under which Covered Bonds may be redeemed (including the maturity date and the price at which they will be redeemed on the maturity date as well as any provisions relating to early redemption) will be agreed between the Issuer and the relevant Dealer at the time of issue of the relevant Covered Bonds. *Issue specific summary:* Subject to any purchase and cancellation or early redemption, the Covered Bonds will be redeemed on [●] at [[●] per cent. of their nominal value]. The Covered Bonds may be redeemed early for tax reasons or on event of default at the relevant Early Redemption Amount [or [*specify any other early redemption option applicable to the Covered Bonds being issued*]] at [*specify the early redemption price and any maximum or minimum redemption amounts, applicable to the Covered Bonds being issued*]. ***Optional Redemption***

Element	Title	
		The Covered Bonds may be subject to early redemption: (i) prior to the occurrence of an Issuer Event of Default and service of an Issuer Default Notice, at the option of the Issuer if an Issuer Call is specified at the time of issue of the relevant Covered Bonds; or (ii) at the option of the holder of the Covered Bond if an Investor Put is specified at the time of issue of the relevant Covered Bonds. *Issue specific summary:* Issuer Call: [*specify if applicable*] Investor Put: [*specify if applicable*] Optional Redemption Date: [*specify if applicable*] Optional Redemption Amount: [*specify if applicable*] ***Maturities*** The Covered Bonds may be issued as Hard Bullet Covered Bonds with a fixed Final Maturity Date, or with an Extended Due for Payment Date in which case repayment may be deferred, as specified in the applicable Relevant Final Terms or Drawdown Prospectus for each Tranche or Series of Covered Bonds. If an Extended Due for Payment Date is so specified, the repayment may be deferred in circumstances where neither the Issuer nor the Guarantor has sufficient funds available to pay in full the Final Redemption Amount due on that Series of Covered Bonds on the relevant Final Maturity Date or within the relevant grace period. During any period that a Covered Bond is subject to a deferral from its Final Maturity Date to its Extended Due for Payment Date, the Covered Bond may convert from a fixed rate to a floating rate. *Issue specific summary:* Final Maturity Date: [*specify*] Extended Due for Payment Date of Guaranteed Amounts corresponding to the Final Redemption Amount under the Guarantee: [*specify if applicable*] ***Representative of holders*** The Issuer has appointed BNY Mellon Corporate Trustee Services Limited (the **Trustee**) to act as trustee for the holders of Covered Bonds. Only the Trustee may enforce the provisions of the Trust Presents. The Trustee may, without the consent of Covered Bondholders, agree to (a) any modification, waiver or authorisation, of any breach, or proposed breach, of any of the provisions of the Covered Bonds (including, without limitation, the German Law Registered Covered Bonds) or (b) determine without the consent of the Covered Bondholders that any Notification Event, Issuer Event of Default or Guarantor Event of Default shall not be treated as such, (c) the substitution of another company as principal debtor under any

Element	Title	
		Covered Bonds (including, without limitation, the German Law Registered Covered Bonds) in place of the Issuer or the Guarantor or (d) any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven, in certain circumstances as described in Condition 16.
C.10	Derivative component in the interest payments	Not applicable – There is no derivative component in the interest payments.
C.11	Listing and Admission to trading	Covered Bonds issued under the Programme may be listed and admitted to trading on the Irish Stock Exchange or such other stock exchange or market specified below, or may be issued on an unlisted basis. *Issue specific summary:* [Application [has been][is expected to be] made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the [regulated market] of the [Irish/London/Luxembourg/[●] Stock Exchange.] [The Covered Bonds are not intended to be admitted to trading on any market.]

Section D – Risks

Element	Title	
D.2	Key risks regarding the Issuer and the Guarantor	In purchasing Covered Bonds, investors assume the risk that the Issuer and the Guarantor may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds. There is a wide range of factors which individually or together could result in the Issuer and/or the Guarantor becoming insolvent or unable to make all payments due in respect of the Covered Bonds. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer and the Guarantor may not be aware of all relevant factors and certain factors which they currently deem not to be material may become material. The Issuer and the Guarantor have identified a number of factors which could materially adversely affect their businesses, financial condition, results of operations, prospects and ability to make payments due under the Covered Bonds. These factors include:[13] • *Regulatory and legislative changes may adversely affect UBS's business and ability to execute its strategic plans*

[13] By virtue of the supplement dated 10 April 2014, the key risks regarding the Issuer and the Guarantor section has been updated

Element	Title	
		• *UBS's capital strength is important in supporting its strategy, client franchise and competitive position* • *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* • *Material legal and regulatory risks arise in the conduct of UBS's business* • *Operational risks may affect UBS's business* • *UBS's reputation is critical to the success of its business* • *Performance in the financial services industry is affected by market conditions and the macroeconomic climate* • *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's global presence subjects it to risk from currency fluctuations* • *UBS is dependent upon its risk management and control processes to avoid or limit potential losses in its counterparty credit and trading businesses* • *Valuations of certain positions rely on models; models have inherent limitations and may use inputs which have no observable source* • *Liquidity and funding management are critical to UBS's ongoing performance* • *UBS might be unable to identify or capture revenue or competitive opportunities, or retain and attract qualified employees* • *UBS's financial results may be negatively affected by changes to accounting standards*

Element	Title	
		• *UBS's financial results may be negatively affected by changes to assumptions supporting the value of its goodwill* • *The effect of taxes on UBS's financial results is significantly influenced by reassessments of its deferred tax assets*
D.3	Key risks regarding the Covered Bonds	There are also risks associated with the Covered Bonds. These include a range of market risks (including that there may be no or only a limited secondary market in the Covered Bonds, that any credit rating assigned to the Covered Bonds may not adequately reflect all the risks associated with an investment in the Covered Bonds and that the Covered Bonds will rank *pari passu* and will contain a cross-default), the fact that the conditions of the Covered Bonds may be modified without the consent of the holder in certain circumstances, that the holder may not receive payment of the full amounts due in respect of the Covered Bonds as a result of amounts being withheld by the Issuer in order to comply with applicable law and that investors are exposed to the risk of changes in law or regulation affecting the value of Covered Bonds held by them. Other risks include: • *Security is provided by UBS AG only, and the Guarantor's ability to enforce against the assets in the Cover Pool is subject to certain limitations* - If and to the extent that the Guarantor has to sell the Assigned Mortgage Claims in order to meet a payment obligation under the Guarantee, there is no guarantee that an Eligible Investor will be found to acquire such Assigned Mortgage Claims at the times required and there can be no guarantee or assurance as to the price which may be able to be obtained. • *The obligations under the Guarantee may be subject to an Extended Due for Payment Date and payment of the Final Redemption Amount may be deferred beyond the Final Maturity Date* – If an Extended Due for Payment Date is specified in the Relevant Final Terms or Drawdown Prospectus, failure by the Guarantor to make payment in respect of all or any portion of the Final Redemption Amount on the Final Maturity Date (or such later date within any applicable grace period) shall not constitute a Guarantor Event of Default. • *If there is a call on the Guarantee, the claims of Covered Bondholders will be limited to the Guarantor's Available*

Element	Title	
		Funds from time to time due to Liquidity Risk in respect of the Mortgage Claims including that the Mortgage Claims may only be sold to a limited number of Eligible Investors - The Guarantor will be unable to make payments for a period following a call under the Guarantee due to the Issuer not pre-funding in accordance with the terms of the Guarantee Mandate Agreement and, upon enforcement of the Cover Pool Assets, there might be a lack of liquidity in respect of the Assigned Mortgage Claims. Furthermore, the maturities of the Assigned Mortgage Claims may not match those of the Covered Bonds. • *The Guarantor may not be able to sell Assigned Mortgage Claims prior to maturity of Hard Bullet Covered Bonds upon a Pre-Maturity Liquidation Event* – There can be no guarantee that an Eligible Investor will be found and no guarantee or assurance as to the price which may be obtained. • *Later maturing Covered Bonds may not be paid in full or at all under the Guarantee as Cover Pool Assets are not segregated for different Series of Covered Bonds and will be used to repay earlier maturing Covered Bonds first.* • *Certain amounts due to other creditors of the Guarantor will rank ahead of the claims of the Covered Bondholders* – The Intercreditor Deed sets out the basis on which monies will be applied to pay amounts due to Covered Bondholders, other Relevant Creditors and other creditors of the Guarantor in accordance with the applicable Priority of Payments. Under each Priority of Payments, there are certain amounts due to creditors which rank ahead of or *pari passu* with the claims of Covered Bondholders under the Guarantee. • *The Guarantor's ability to make payments under the Guarantee will depend primarily on the ability of the Issuer to pay the amounts due under the Pre-Funding Obligations* and secondly on cash and cash equivalents being available to the Guarantor from the collection of amounts due under, and received following any liquidation of, the Assigned Mortgage Claims and the related Transferred Mortgage Certificates (it being understood that the related Transferred Mortgage Certificates only provide security for the Assigned Mortgage Claims(s)) – The Guarantor will not have any significant sources of funds available to meet its

Element	Title	
		obligations to pay Guaranteed Amounts other than this. • *Failure to maintain the aggregate collateral value of the Cover Pool in compliance with the Asset Coverage Test may affect the realisable value of the Cover Pool or any part thereof.* • *The Guarantor will not provide any direct security for its obligations under the Guarantee and the claims of the Covered Bondholders are limited recourse obligations of the Guarantor* - The claims of each Covered Bondholder against the Guarantor under the Guarantee are limited to the pro rata share of such claims (after giving effect to the Priority of Payments) in the Available Funds arising from the Cover Pool Assets and will rank *pari passu* with all other unsecured and unsubordinated holders of claims against the Guarantor not benefiting from any bankruptcy privilege under mandatory applicable law. • *Under the Conditions and the terms of certain Transaction Documents, the Covered Bondholders are limited in enforcing their rights and claims against the Guarantor* - Under the Conditions and the terms of the Intercreditor Deed, the Covered Bondholders will agree that it will not take any legal steps nor institute any legal proceedings against the Guarantor or its assets or corporate bodies for the purpose asserting or enforcing any of its rights or claims against the Guarantor. • *There is no tax gross-up under the Guarantee* – The Guarantor will not be liable to pay any additional amounts in respect of any amount withheld or deducted for, or on account of, taxes from a payment under the Guarantee. • *U.S. Foreign Account Tax Compliance Withholding* – FATCA may affect payments made to custodians or intermediaries, which may in certain cases affect the amount of payment to any ultimate investor. • *Certain amounts payable to the Trustee and the Agents may reduce funds available to pay Covered Bondholders* – Such amounts will be paid out of the Guarantor's General Bank Account pursuant to the Priorities of Payments on a priority basis ahead of amounts due to Covered Bondholders.

Element	Title	
		• *Prior to the completion of a transfer of Collected Mortgage Payments to the Guarantor, monies collected by the Originator on behalf of the Guarantor are commingled with the funds of the Originator, and there can be no assurance as to the ability of the Guarantor to obtain effective direct payments from the Mortgage Debtors under the Assigned Mortgage Claims.* • *Mortgage Debtors may default in paying amounts due under the Assigned Mortgage Claims* – This may reduce the amount of the Guarantor's Available Funds. • *Risks relating to the Swiss residential mortgage market such as a deterioration in the market for real estate, could negatively affect the value and marketability of the Covered Bonds.* • *If UBS AG extends any further loans to any Mortgage Debtor after assignment of Assigned Mortgage Claims, the new loans may, in some circumstances, affect the ability of the Mortgage Debtor to repay the Assigned Mortgage Claim.* • *The Guarantor may be exposed to a potential shortfall in payments under the Assigned Mortgage Claims in the absence of a valid waiver of a Mortgage Debtor's right of set-off against UBS AG* – In the absence of a valid waiver, a Mortgage Debtor is entitled to set off all payments due under the relevant Assigned Mortgage Claim against any cash deposits held by UBS AG and any other monetary claims by such Mortgage Debtor against UBS AG. • *The waivers of banking secrecy and the transfer clauses necessary for the transfer of Cover Pool Assets, as well as other relevant provisions in UBS AG's standard forms of agreement may be deemed by Swiss courts to be insufficient or inapplicable, which may negatively affect the validity of the transfer of Cover Pool Assets to the Guarantor, replenishment of the Cover Pool as well as the value and/or the enforceability of the Cover Pool Assets.* • *If Transferred Mortgage Certificates are sold at public auction, there is no guarantee that a fair market price will be realised or that such a price will be sufficient to discharge the amount outstanding under the relevant*

Element	Title	
		Assigned Mortgage Claim. • *The sale of real property upon enforcement in the Transferred Mortgage Certificates may be subject to property transfer taxes and capital gains taxes or legal liens as a consequence of unpaid taxes.* • *Changes in tax treatment on Swiss residential mortgage loans may adversely affect the prices of the residential properties relating to the Relevant Mortgage Loans, the ability of the Mortgage Debtors to pay their obligations under the Relevant Mortgage Loans and, as an indirect consequence, the value of the Relevant Mortgage Loans.* • *No due diligence has been undertaken on the Cover Pool* - None of the Arranger, any Dealer, the Issuer, the Guarantor or the Trustee has undertaken or will undertake any investigations, searches or other actions in respect of any of the Mortgage Assets or other Cover Pool Assets. • *The lending criteria applicable to any new Mortgage Asset at the time of its origination may not be the same as those set out in this Base Prospectus* – The Assignor has the right to revise its lending criteria in its absolute discretion and such changes may be material. • *The Cover Pool may change and the assets in the Cover Pool may deteriorate, which may adversely affect the Guarantor's ability to make payments under the Guarantee.* • *Levels of arrears in the Cover Pool included in the Investors Reports incorporated by reference into this Base Prospectus are as of the applicable Cut-Off Dates, and may have changed at the date of the issuance of the relevant Series of Covered Bonds.* • *The investors will receive limited information on the Cover Pool.* • *The Guarantor and the Covered Bondholders place significant reliance on UBS AG in connection with the servicing of the Cover Pool Assets and such reliance may give rise to conflicts of interests* - The Guarantor and the Covered Bondholders place significant reliance on UBS

Element	Title	
		AG in connection with the servicing of the Cover Pool Assets, as well as for its own administration and funding. In particular, UBS AG performs the initial roles of: (a) Cash Manager; (b) Account Bank; and (c) Corporate Services Provider to the Guarantor. UBS AG, London Branch performs the initial roles as: (a) Swap Provider; and (b) Calculation Agent. • *Replacement of UBS AG as services provider may not be found on acceptable terms or within an acceptable time period, with the result that the ability of the Guarantor to perform its obligations may be impaired.* • *Insolvency of UBS AG may negatively affect the liquidation and enforcement of the Cover Pool Assets for the benefit of the Covered Bondholders and/or the rights and claims of the Covered Bondholders against the Guarantor* - An insolvency of UBS AG could negatively affect the Swiss mortgage market and the value of the real property underlying the Cover Pool, thereby impairing the realisation of the underlying Mortgage Assets and the ability of the Guarantor to make payments to Covered Bondholders. In the event of insolvency of UBS AG, transactions involving the provision, replenishment or substitution of Covered Pool Assets may be challenged which may result in the Guarantor having insufficient funds to make payments under the Guarantee. • *Events of Default with respect to the Guarantor are limited* – Service of an Issuer Default Notice on the Issuer does not constitute an event of default with respect to the Guarantor, rather the Conditions contain limited events of default with respect to the Guarantor. • *Insolvency of the Guarantor may negatively affect the rights and claims of the Covered Bondholders against the Guarantor* – If the Guarantor becomes insolvent it would become subject to applicable insolvency laws and procedures, and there is no assurance that an insolvency of the Guarantor will not, directly or indirectly, negatively affect the rights and claims of the Covered Bondholders against the Guarantor. • *When realising Cover Pool Assets following the occurrence of a Guarantor Event of Default, the proceeds may be insufficient to repay all amounts due to the*

Element	Title	
		Relevant Creditors and Covered Bondholders. • *Control of the Guarantor may have adverse consequences for the Covered Bondholders* – Two of the four current members of the Board of Directors are employees of UBS AG. The Trustee cannot exert any control over the Guarantor and its instructions cannot supersede those given by the Guarantor to, *inter alia*, the Cash Manager, the Account Bank or Principal Originator in relation to the servicing and administration of the Assigned Mortgage Claims. • *In the case of insolvency of the Account Bank, the Guarantor will have only an unsecured claim against the estate for funds deposited, and no assurance can be given that the Guarantor effectively will have adequate access to Substitute Assets.* • *The Trustee and the Guarantor may disagree on the directions to be given to the Cash Manager and the effect thereof on Covered Bondholders, which may have adverse consequences for Covered Bondholders.* • *An undertaking not to exercise retention rights may not be enforceable against the Collateral Holding Agent.* • *Termination of UBS AG agency relationships at will may affect payments on the Covered Bonds* – Under Swiss law any of the parties to the relevant Transaction Documents may terminate the appointment of UBS AG as an agent at will. • *Currency exchange rate risk* – Principal and interest on the Covered Bonds will be paid in the Specified Currency which involves risks relating to currency conversion if an investor's financial activities are denominated principally in a different currency. • *If the Guarantor defaults under the Swap Agreement the Guarantor may have insufficient funds to make payments due under the Guarantee* - Following the IED Guarantee Activation Date (if any), the Guarantor will rely on the Swap Provider under (i) the Cover Pool Swaps, in order to mitigate variations between the rate of interest payable on the Assigned Mortgage Claims in the Cover Pool and CHF LIBOR; and (ii) the Covered Bond Swaps in order to mitigate certain interest rate and currency risks in

Element	Title	
		respect of amounts received by the Guarantor under the Cover Pool Swaps and amounts payable by the Guarantor under the Covered Bonds. If the Guarantor defaults under the Swap Agreement due to non-payment or otherwise, the Swap Provider will not be obliged to make further periodic payments under the Swap Agreement. If the Swap Provider is not obliged to make payments, or if it defaults in its obligations to make payments under the Swap Agreement, the Guarantor will be exposed to those changes in interest and currency exchange rates that would otherwise be hedged by the Covered Bond Swaps and the Cover Pool Swaps. • *Swap Termination Payments for Swap Agreement will rank pari passu with payments due to the Covered Bondholders under the terms of the Guarantee* – If the Swaps are terminated, the Guarantor may be obliged to make a Swap Termination Payment to the Swap Provider. Any Swap Termination Payment (excluding any Excluded Swap Termination Amount) will rank *pari passu* with payments due to the Covered Bondholders. • *Credit rating may not reflect all risks* – The rating assigned to the Covered Bonds as specified in the applicable Relevant Final Terms or Drawdown Prospectus may not reflect the potential impact of all risks related to an investment in the Covered Bonds. • *Covered Bonds issued under the Programme will rank pari passu and will cross default.* • *There is no assurance that applications to relevant stock exchanges will be accepted.* • *The Covered Bonds may be de-listed if accounts are required to be prepared in accordance with International Financial Reporting Standards* – The Guarantor prepares its accounts in accordance with Swiss generally accepted accounting principles. If this is not treated as equivalent to IFRS, the Issuer may request the Irish Stock Exchange to remove any Covered Bonds from listing on the Regulated Market. • *Reliance on clearing systems, the Collateral Holding Agent and the Nominee System Provider* – The Issuer will have to rely on the performance and procedures of these parties and the Issuer takes no responsibility or liability

Element	Title	
		for this. • *Covered Bondholders will not have a direct right under the Covered Bonds to vote in respect of the Covered Bonds or to take enforcement action against the Issuer or the Guarantor in the event of a default.* • *Modifications, waivers and substitution under the Covered Bonds may, in certain circumstances, be made without consent of the Covered Bondholder* – These circumstances are as set out in the Conditions of the Covered Bonds. • *Certain decisions of holders of the Covered Bonds must be taken at Programme Level* – As a result, the holders of a single Series of Covered Bond may not be able to give any directions to the Trustee without the agreement of the holders of other outstanding Series of Covered Bonds. • *Lack of liquidity in the secondary market may adversely affect the market value of the Covered Bonds.* • *Risks related to the structure of a particular issue of Covered Bonds* – A wide range of Covered Bonds may be issued under the Programme, including Fixed Rate Covered Bonds, Exempt Covered Bonds, Floating Rate Covered Bonds, Covered Bonds issued at a substantial discount or premium and Covered Bonds where denominations involve integral multiples, which may each have features which contain particular risks for potential investors. • *Transfers of Covered Bonds* – The Covered Bonds are subject to restrictions on transfer. • *Covered Bonds subject to optional redemption by the Issuer* - The Covered Bonds may be subject to early redemption: (i) prior to the occurrence of an Issuer Event of Default and service of an Issuer Default Notice, at the option of the Issuer if an Issuer Call is specified at the time of issue of the relevant Covered Bonds; or (ii) at the option of the holder of the Covered Bond if an Investor Put is specified at the time of issue of the relevant Covered Bonds. • *Structure of the Programme* - The Covered Bonds are not

Element	Title	
		issued pursuant to a specific statutory framework, but are based on a novel structure. The structure relies on a number of legal concepts, some of which have not been tested in court. Accordingly, changes in law or its interpretation, including by way of changes to administrative practice and judicial decisions, may adversely affect the Covered Bonds and the rights of the Covered Bondholders against the Issuer under the Covered Bonds and/or against the Guarantor under the Guarantee and even the viability of the transaction structure. • *Legal investment considerations may restrict certain investments for certain investors, including the Covered Bonds.* • *Implementation of and/or changes to the Basel III framework may affect the capital requirements and/or the liquidity associated with a holding of the Covered Bonds for certain investors.* • *Applicable insolvency law* – Commencement of insolvency proceedings in respect of the Issuer or the Guarantor in jurisdictions other than Switzerland may affect the amount and timing of payments made to Covered Bondholders. • *Insolvency proceedings and subordination provisions* – There is uncertainty as to the validity and/or enforceability of a provision which subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor and whether subordination provisions of the type included in the Transaction Documents would be enforceable against an insolvency administrator of a Swiss debtor. This may affect the validity of the terms in the Transaction Documents relating to the subordination of Excluded Swap Termination Amounts under the Priorities of Payments. • *Change of law* – Any change in English law or Swiss law may adversely affect the ability of the Issuer or the Guarantor to make payments under the Covered Bonds or Guarantee, as applicable. • *EU Savings Directive* - If a payment were to be made or collected through a Member State (or relevant non-European Union country, including Switzerland) or dependent or associated territory which has opted for, or

Element	Title	
		adopted, a withholding system and, an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor the Guarantor or any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. • *If UBS AG experiences financial difficulties, FINMA has the power to open resolution or liquidation proceedings in respect of, and/or impose protective measures in relation to, UBS AG, which proceedings or measures may have a material adverse effect on the terms and market value of the Covered Bonds and/or the ability of UBS AG and the Guarantor to make payments under the Covered Bonds and the Guarantee, respectively* - In particular, a resolution plan may, among other things, provide for: (i) the transfer of UBS AG's assets or parts thereof with assets and debts as well as contracts, which may or may not include the Transaction Documents to which UBS AG is a party to another entity; (ii) the conversion of UBS AG's debt or other obligations, including Secured Obligations and other obligations of UBS AG under the Transaction Documents, into equity (a "debt-to-equity swap"); and/or (iii) the partial or full write-off of obligations owed by UBS AG, including Secured Obligations (a "haircut") and other obligations of UBS AG under the Transaction Documents. • *Proposed Amendment of Swiss Federal Withholding Tax Act* – 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 Covered Bond to an individual resident in Switzerland or to any person outside of Switzerland. If such legislation were enacted, neither the Issuer nor the Guarantor nor any paying agent nor any other persons would be obliged to pay any additional amounts with respect to the Covered Bonds. • *Final Foreign Withholding Taxes (internationale Quellensteuer)* – Switzerland has entered into treaties with the United Kingdom and Austria, which require a Swiss paying agent to levy a flat-rate final withholding tax on certain capital gains and income items deriving from assets held in accounts or deposits with a Swiss paying agent by certain persons. If a flat-rate final withholding tax were to be deducted or withheld from a payment of interest or capital gain relating to the Covered Bonds, neither the Issuer nor the Guarantor nor any

Element	Title	
		paying agent nor any other persons would be obliged to pay any additional amounts with respect to the Covered Bonds.

Section E – Offer

Element	Title	
E.2b	Use of proceeds	The net proceeds from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes or towards meeting the general financing requirements of the UBS Group, in each case outside Switzerland unless use in Switzerland is permitted under the Swiss taxation laws in force from time to time without payments in respect of the Covered Bonds becoming subject to withholding or deduction for Swiss withholding tax as a consequence of such use of proceeds in Switzerland. **[*Issue specific summary*** The net proceeds from the issue of Covered Bonds will be applied by the Issuer for its general corporate purposes, which include making a profit [and[ ]].
E.3	Terms and conditions of the offer	Under the programme, the Covered Bonds may be offered to the public in a Public Offer in Austria, Belgium, France, Germany, Italy, Ireland, Luxembourg, the Netherlands, Spain and the United Kingdom. The terms and conditions of each offer of Covered Bonds will be determined by agreement between the Issuer and the relevant Dealers at the time of issue and specified in the Relevant Final Terms or Drawdown Prospectus. An investor intending to acquire or acquiring any Covered Bonds in a Public Offer from an Authorised Offeror will do so, and offers and sales of such Covered Bonds to an investor by such Authorised Offeror will be made, in accordance with any terms and other arrangements in place between such Authorised Offeror and such investor including as to price, allocations and settlement arrangements. ***Issue specific summary:*** [This issue of Covered Bonds is being offered in a Public Offer in [*specify particular country/ies*]. The issue price of the Covered Bonds is [●] per cent. of their nominal amount.
E.4	Interest of natural and legal persons involved in the issue/offer	The relevant Dealers may be paid fees in relation to any issue of Covered Bonds under the Programme. Any such Dealer and its affiliates may also 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 the Guarantor and their affiliates in the ordinary

Element	Title	
		course of business. The Issuer has appointed UBS Limited, UBS AG and UBS Securities LLC as Initial Dealers for the Programme. The arrangements under which Covered Bonds may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in the Dealer Agreement made between the Issuer and the Dealers. ***Issue specific summary*** [Other than as mentioned above,[and save for [●],] so far as the Issuer is aware, no person involved in the issue of the Covered Bonds has an interest material to the offer, including conflicting interests.]
E.7	Expenses charged to the investor by the Issuer or an Offeror	It is not anticipated that the Issuer will charge any expenses to investors in connection with any issue of Covered Bonds under the Programme. Other Authorised Offerors may, however, charge expenses to investors. Such expenses (if any) shall be charged in accordance with any contractual arrangements agreed between the investor and such Authorised Offeror at the time of the relevant offer ***[Issue specific summary:*** No expenses are being charged to an investor by the Issuer. For this specific issue, however, expenses may be charged by an Authorised Offeror (as defined above) in the range between [●] per cent. and [●] per cent. of the nominal amount of the Covered Bonds to be purchased by the relevant investor.]