BASE PROSPECTUS SUPPLEMENT DATED 27 MAY 2011 TO THE BASE PROSPECTUS DATED 2 NOVEMBER 2010

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 Base Prospectus Supplement (the **Base Prospectus Supplement**) to the Base Prospectus dated 2 November 2010 (the **Base Prospectus**) constitutes a Base Prospectus Supplement for the purposes of Article 16 of Directive 2003/71/EC (the **Prospectus Directive**) and is prepared in connection with the Covered Bond Programme (the **Programme**) established by UBS AG (**UBS AG**) acting through its London branch (the **Issuer**). Terms defined in the Base Prospectus have the same meanings 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.

The Base Prospectus Supplement has been approved by the Central Bank of Ireland as competent authority under the Prospectus Directive. The Central Bank of Ireland only approves this Base Prospectus Supplement as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive.

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.

AMENDMENTS TO THE DOCUMENTS INCORPORATED BY REFERENCE

Sub-paragraph (A) of the first paragraph of the "Documents Incorporated by Reference" section on page 2 of the Base Prospectus is deleted and replaced with the following:

(A) the Issuer's Annual Report on Form 20-F for the year ended 31 December 2009, which the Issuer filed with the United States' Securities and Exchange Commission (the **SEC**) on 15 March 2010 and the Issuer's Annual Report on Form 20-F for the year ended 31 December 2010, which the Issuer filed with the SEC on 15 March 2011; and

Sub-paragraph (B) of the first paragraph of the "Documents Incorporated by Reference" section on page 2 of the Base Prospectus is deleted and replaced with the following:

(B) the Issuer's submissions on Form 6-K, which the Issuer filed with the SEC on 22 March 2011, 24 March 2011, 25 March 2011, 28 March 2011, 29 March 2011 and 30 March 2011 , 12 April 2011, 15 April 2011, 18 April 2011, 20 April 2011, 21 April 2011, 26 April 2011, 28 April 2011, 29 April 2011, 6 May 2011, 10 May 2011, 11 May 2011, 18 May 2011 and 20 May 2011.

AMENDMENTS TO THE DESCRIPTION OF UBS AG

The description of UBS AG on pages 175 to 190 inclusive of the Base Prospectus is deleted and replaced with the following:

1. OVERVIEW

UBS AG with its subsidiaries (UBS AG also **Issuer** or **Company**; together with its subsidiaries **UBS Group**, **Group** or **UBS** draws on its 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. UBS combines its wealth management, investment banking and asset management businesses with its Swiss operations to deliver superior financial solutions. Headquartered in Zurich and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centres.

On 31 December 2010 UBS's BIS Tier1[1] ratio was 17.8%, invested assets stood at CHF 2,152 billion, equity attributable to UBS shareholders was CHF 46,820 million and market capitalization was CHF 58,803 million. On the same date, UBS employed 64,617 people .[2]

The rating agencies Standard & Poor's Inc. (**Standard & Poor's**), Fitch Ratings (**Fitch**) and Moody's Investors Service Inc. (**Moody's**) have assessed the creditworthiness of UBS, i.e. the ability of UBS to fulfill payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing, in a timely manner. The ratings from Fitch 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 has long-term senior debt ratings of A+ (outlook stable) from Standard & Poor's, Aa3 (outlook negative) from Moody's and A+ (outlook stable) from Fitch. [3]

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[1] BIS Tier 1 ratio is the ratio of eligible Tier 1 capital to BIS risk-weighted assets, calculated under Basel II standards. Eligible Tier 1 capital comprises paid-in share capital, share premium, retained earnings including current year profit, foreign currency translation, trust preferred securities (innovative and non-innovative capital instruments) and non-controlling interests, less net long positions in own shares, goodwill and intangibles and other deduction items such as for securitization.

[2] Full-time equivalents.

[3] The aforementioned rating agencies are established in the European Union and have applied for registration under Regulation (EU) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies ("CRA Regulation"), although as of the date of this Supplement notification of the corresponding registration decision has not yet been provided by the relevant competent authority. 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

2. CORPORATE INFORMATION

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

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

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

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

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.

3. BUSINESS OVERVIEW

3.1 Business Divisions and Corporate Center

UBS operates as a group with four business divisions (Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and the Investment Bank) and a Corporate Center. Each of the business divisions and the Corporate Center are described below. A full description of their businesses, strategies and clients, organizational structures, products and services can be found in the Annual Report 2010 of UBS AG published on 15 March 2011 (the **Annual Report 2010**), on pages 71–111 (inclusive) of the English version.

3.1.1 Wealth Management & Swiss Bank

Wealth Management & Swiss Bank focuses on delivering comprehensive financial services to high net worth and ultra high net worth individuals around the world - except those served by Wealth Management Americas - as well as private and corporate clients in Switzerland. The Wealth Management business unit provides clients in over 40 countries, including Switzerland, with financial advice, products and tools to fit their individual needs. The Retail & Corporate business unit provides individual and business clients with an array of banking services, such as deposits and lending, and maintains, in its own opinion, a leading position across its clients segments in Switzerland.

3.1.2 Wealth Management Americas

Wealth Management Americas provides advice-based solutions through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of

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established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

ultra high net worth, high net worth and core affluent individuals and families. It includes the domestic United States business (Wealth Management US), the domestic Canadian business and international business booked in the United States.

3.1.3 Global Asset Management

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

3.1.4 Investment Bank

The Investment Bank provides securities and other financial products and research in equities, fixed income, rates, foreign exchange and commodities. It also provides advisory services and access to the world's capital markets for corporate and institutional clients, sovereign and governmental bodies, financial intermediaries, alternative asset managers and private investors.

3.1.5 Corporate Center

The Corporate Center provides and manages support and control functions for the Group in such areas as risk control, finance, legal and compliance, funding, capital and balance sheet management, management of non-trading risk, communication and branding, human resources, information technology, real estate, procurement, corporate development and service centers. Most costs and personnel of the Corporate Center are allocated to the business divisions.

3.1.6 Organizational Structure of the Issuer

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

The parent bank structure allows UBS to fully exploit the advantages generated for all business divisions through the use of a single legal entity. In cases where it is impossible or inefficient to operate via the parent, due to local legal, tax or regulatory provisions, or where additional legal entities join the Group through acquisition, the business is operated on location by legally independent Group companies. UBS AG's significant subsidiaries are listed in the Annual Report 2010, on pages 362-364 (inclusive) of the English version.

3.2 Competition

UBS faces stiff competition in all business areas. Both in Switzerland and abroad, it competes with asset management companies, commercial, investment and private banks, brokerages and other financial services providers. Competitors include not only local banks, but also global financial institutions, which are similar to UBS in terms of both size and services offered.

In addition, the consolidation trend in the global financial services sector is introducing new competition, which may have a greater impact on prices, as a result of an expanded range of products and services and increased access to capital and growing efficiency.

3.3 Recent Developments

On 3 December 2010, UBS announced that the Board of Directors of UBS AG appointed Tom Naratil as Group Chief Financial Officer and member of the Group Executive Board with effect from 1 June 2011, and Sergio Ermotti as Chairman and CEO of Europe, Middle East and Africa and member of the Group Executive Board, with effect from 1 April 2011.

On 14 February 2011, UBS announced that Sally Bott had resigned with immediate effect from the UBS AG Board of Directors. Helmut Panke will act as ad-interim Chairman of the Human Resources and Compensation Committee, taking over from Sally Bott. UBS will announce in due course whether it will nominate an additional candidate for election to the Board of Directors.

On 15 March 2011, UBS published its Annual Report 2010 and reported a net profit attributable to UBS shareholders for full year 2010 of CHF 7,534 million, compared with a net loss of CHF 2,736 million for full year 2009. This increase was primarily due to a significant improvement in fixed income, currencies and commodities revenues from a loss in 2009. In addition, a reduction in credit loss expense, as well as significantly lower own credit losses on financial liabilities designated at fair value, supported the result. Risk-weighted assets calculated under Basel II were reduced by 4% during the year to CHF 199 billion, and, on 31 December 2010, UBS's balance sheet stood at CHF 1,317 billion, down 2% compared with the prior year. The increase in UBS's regulatory capital, together with a reduction in risk-weighted assets, led to an improvement of UBS's BIS tier 1 capital ratio to 17.8% at the end of 2010, compared with 15.4% at the end of 2009. On 31 December 2010, UBS's FINMA leverage ratio was 4.45%, compared with the 31 December 2009 ratio of 3.93%. During 2010, Wealth Management's net new money outflows declined to CHF 12.1 billion from CHF 87.1 billion in 2009, and Retail & Corporate recorded net new money inflows of CHF 2 billion, compared with net new money outflows of CHF 2.7 billion in 2009. Net new money outflows for Wealth Management Americas were CHF 6.1 billion in 2010 compared with CHF 11.6 billion in the prior year. Global Asset Management recorded net new money inflows of CHF 1.8 billion in 2010, compared with net outflows of CHF 45.8 billion in 2009.

3.4 Trend Information (Outlook statement as presented in UBS's fourth quarter 2010 report issued on 8 February 2011)

In the first quarter UBS expects some improvement in the Investment Bank's trading results compared with the two prior quarters, but this will as always largely depend upon market conditions and the volume of business that UBS's customers transact with it. UBS does expect the investments it has been making in certain of its securities trading operations to bear fruit during 2011. The Investment Banking Department (**IBD**) has a promising book of financial advisory business. For the coming quarter, however, UBS does not expect IBD to match its seasonally strong fourth quarter result, at least not in its advisory business. In the wealth and asset management divisions, UBS expects client activity in the first quarter to be above fourth quarter levels, supporting transaction-based revenue in those divisions. UBS is optimistic that overall positive net new money inflows will continue in the first quarter. For the full year, UBS believes that net new money will strengthen noticeably.

No later outlook statement has been issued by UBS.

4. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES OF THE ISSUER

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

UBS AG operates under a strict dual board structure, as mandated by Swiss banking law. This structure establishes checks and balances and preserves the institutional independence of the Board of Directors (**BoD**) from the day-to-day management of the firm, for which responsibility is delegated to the Group Executive Board (**GEB**). The supervision and control of the executive management remains with the BoD. No member of one board may be a member of the other.

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

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 (**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 shares are listed. 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's strategic aims and the necessary financial and human resources upon recommendation of the Group Chief Executive Officer (**Group CEO**) and sets the UBS Group's values and standards to ensure that its obligations to its shareholders and others are met.

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

4.1.1 Members of the Board of Directors

Member and business address	Title	Term of office	Positions outside UBS AG
Kaspar Villiger UBS AG, Bahnhofstrasse 45, CH-8001 Zurich Switzerland	Chairman	2011	None
Michel Demaré ABB Ltd., Affolternstrasse 44, CH-8050 Zurich Switzerland	Independent Vice Chairman	2011	CFO and member of the Group Executive Committee of ABB; President Global Markets at ABB; member of the IMD Foundation Board, Lausanne.

David Sidwell UBS AG, Bahnhofstrasse 45 CH-8001 Zurich Switzerland	Senior Independent Director	2011	Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; senior Advisor at Oliver Wyman; trustee of the International Accounting Standards Committee Foundation, London; Chairman of the BoD of Village Care, New York; Director of the National Council on Aging, Washington D.C..
Rainer-Marc Frey Office of Rainer-Marc Frey, Seeweg 39, CH-8807 Freienbach Switzerland	Member	2011	Founder and Chairman of Horizon21 and its related entities and subsidiaries; member of the BoD of DKSH Group, Zurich and of the Frey Charitable Foundation, Freienbach.
Bruno Gehrig Swiss International Air Lines AG, Obstgartenstrasse 25, CH-8302 Kloten Switzerland	Member	2011	Chairman of the BoD of Swiss International Air Lines and Vice Chairman and Chairperson of the Remuneration Committee of Roche Holding Ltd., Basel.
Ann F. Godbehere UBS AG, Bahnhofstrasse 45, CH-8001 Zurich Switzerland	Member	2011	Board member, and Chairperson of the Audit Committees, of Prudential plc, Rio Tinto plc and Rio Tinto Limited; board member of Atrium Underwriters Ltd. and Atrium Underwriting Group Ltd., London; member of the board and Chairperson of the Audit Committee of Ariel Holdings Ltd., Bermuda.
Axel P. Lehmann Zurich Financial Services, Mythenquai 2 CH-8002 Zurich Switzerland	Member	2011	Group Chief Risk Officer of Zurich Financial Services; Chairman of the Board of the Institute of Insurance Economics at the University of St. Gallen and Chairman of the Chief Risk Officer Forum.
Wolfgang Mayrhuber Deutsche Lufthansa AG, Flughafen Frankfurt am Main 302, D-60549 Frankfurt am Main Germany	Member	2011	Chairman of the supervisory board and Chairperson of the Mediation, the Nomination and the Executive Committees of Infineon Technologies AG, as well as member of the supervisory boards of Munich Re Group, BMW Group, Lufthansa Technik AG and Austrian Airlines AG; member of the Board of SN Airholding SA/NV and HEICO Corp., Hollywood,

			Florida.
Helmut Panke BMW AG, Petuelring 130, D-80788 Munich Germany	Member	2011	Member of the BoD of Microsoft Corporation (and Chairperson of the Antitrust Compliance Committee) and Singapore Airlines Ltd.; member of the Supervisory Board of Bayer AG, Germany.
William G. Parrett UBS AG Bahnhofstrasse 45 CH-8001 Zurich Switzerland	Member	2011	Independent Director, and Chairperson of the Audit Committee, of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc.; Immediate Past Chairman of the BoD of the United States Council for International Business and of United Way Worldwide; member of the Board of Trustees of Carnegie Hall.

On 23 July 2010, UBS announced the nomination of Joseph Yam, founder and former Chief Executive of the Hong Kong Monetary Authority, for election to the Board of Directors at UBS AG's Annual General Meeting on 28 April 2011.

4.1.2 Organizational principles and structure

Following each AGM, the BoD meets to appoint its Chairman, Vice Chairman, Senior Independent Director, the BoD Committees 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.

4.1.3 Audit Committee

The Audit Committee (**AC**) comprises at least three independent BoD members, with all members having been determined by the BoD to be fully independent and financially literate.

The AC does not itself perform audits, but monitors the work of UBS auditors. Its function is to serve as an independent and objective body with oversight of: (i) the Group's accounting policies, financial reporting and disclosure controls and procedures, (ii) the quality, adequacy and scope of external audit, (iii) the Issuer's compliance with financial reporting requirements, (iv) management's approach to internal controls with respect to the production and integrity of the financial statements and disclosure of the financial performance, and (v) the performance of UBS's Group Internal Audit in conjunction with the Chairman of the BoD and the Risk Committee.

The AC, together with the external auditors and Group Internal Audit, reviews the annual and quarterly financial statements of UBS AG and the Group as proposed by management in order to recommend their approval, including any adjustments it considers appropriate, to the BoD. Moreover, 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 removal of the external auditors and the rotation of the lead audit partner. The BoD then submits these proposals at the AGM.

The members of the AC are William G. Parrett (Chairperson), Ann F. Godbehere, Michel Demaré and Rainer-Marc Frey.

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 approved by the BoD.

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

4.2.1 Members of the Group Executive Board

Oswald J. Grübel	Group Chief Executive Officer
John Cryan	Group Chief Financial Officer / Chairman and Chief Executive Officer, UBS Group EMEA ad interim
Markus U. Diethelm	Group General Counsel
John A. Fraser	Chairman and Chief Executive Officer Global Asset Management
Lukas Gähwiler	Chief Executive Officer UBS Switzerland, co-CEO Wealth Management & Swiss Bank
Carsten Kengeter	Chairman and Chief Executive Officer Investment Bank
Ulrich Körner	Group Chief Operating Officer and Chief Executive Officer Corporate Center
Philip J. Lofts	Chief Executive Officer, UBS Group Americas
Robert J. McCann	Chief Executive Officer Wealth Management Americas
Maureen Miskovic	Group Chief Risk Officer
Alexander Wilmot-Sitwell	Co-Chairman and co-Chief Executive Officer UBS Group Asia Pacific
Chi-Won Yoon	Co-Chairman and Co-Chief Executive Officer UBS Group Asia Pacific
Jürg Zeltner	Chief Executive Officer UBS Wealth Management, co-CEO Wealth Management & Swiss Bank

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

4.3 Potential conflicts of interest

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

5. AUDITORS

On 14 April 2010, the AGM of UBS AG re-elected Ernst & Young Ltd, Aeschengraben 9, 4002 Basel, Switzerland (**Ernst & Young**) as auditors for the Financial Statements of UBS AG and the Consolidated Financial Statements of the UBS Group for a further one-year term. Ernst & Young Ltd., Basel, is a member of the Swiss Institute of Certified Accountants and Tax Consultants based in Zurich, Switzerland.

6. MAJOR SHAREHOLDERS OF THE ISSUER

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

The following are the most recent notifications of holdings in UBS AG's share capital filed in accordance with the Swiss Stock Exchange Act, based on UBS AG's registered share capital at the time of the disclosure:

- 8 June 2010: The Capital Group Companies, Inc., Los Angeles, USA, 4.90%;
- 12 March 2010: Government of Singapore Investment Corp., 6.45%;
- 17 December 2009: BlackRock Inc., New York, USA, 3.45%.

Voting rights may be exercised without any restrictions by shareholders entered into UBS's share register, if they expressly render a declaration of beneficial ownership according to the provisions of the Articles of Association. Special provisions exist for the registration of fiduciaries and nominees. Fiduciaries and nominees are entered in the share register with voting rights up to a total of 5% of all shares issued if they agree to disclose upon UBS's request beneficial owners holding 0.3% or more of all UBS 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 2010, the following shareholders were registered in the share register with 3% or more of the total share capital of UBS AG: Chase Nominees Ltd., London (10.70%); the US securities clearing organization DTC (Cede & Co.) New York, **The Depository Trust Company**) (7.32%); Government of Singapore Investment Corp. (6.41%) and Nortrust Nominees Ltd, London (3.79%).

UBS holds its own shares primarily to hedge employee share and option participation plans. A smaller number is held by the Investment Bank in its capacity as a market-maker in UBS shares and related derivatives. As of 31 December 2010, UBS held a stake of UBS AG's shares, which corresponded to less than 3.00% of its total share capital. On 11 March 2010, UBS AG disclosed disposal positions relating to 558,512,499 of its shares, corresponding to 14.58% of the total share capital. These positions included the number of shares that may be issued, upon certain conditions, out of conditional capital to the Swiss National Bank (**SNB**) in connection with the transfer of certain illiquid and other positions to a fund owned and controlled by the SNB.

Further details on the distribution of UBS AG's shares, also by region and shareholders' type, and on the number of shares registered, non registered and carrying voting rights as of 31 December 2010 can be found in the Annual Report 2010, on pages 193-195 (inclusive) of the English version.

7. FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

7.1 Historical Annual Financial Information

A description of the Issuer's assets and liabilities, financial position and profits and losses for financial year 2009 is available in the Annual Report 2009 of UBS AG (Financial Information section), and for financial year 2010 in the Annual Report 2010 (Financial Information section). The Issuer's financial year is the calendar year.

With respect to the financial year 2009, reference is made to the following parts of the Annual Report 2009 (Financial Information section), in English:

(i) the Consolidated Financial Statements of UBS Group, in particular to the Income Statement on page 255, the Balance Sheet on page 257, the Statement of Cash Flows on pages 261-262 (inclusive) and the Notes to the Consolidated Financial Statements on pages 263-370 (inclusive), and

(ii) the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement on page 372, the Balance Sheet on page 373, the Statement of Appropriation of Retained Earnings on page 373, the Notes to the Parent Bank Financial Statements on pages 374–392 (inclusive) and the Parent Bank Review on page 371, and

(iii) the sections entitled **Introduction and accounting principles** on page 244 and **Critical accounting policies** on pages 245-248 (inclusive).

With respect to the financial year 2010, reference is made to the following parts of the Annual Report 2010 (Financial Information section), in English:

(i) the Consolidated Financial Statements of UBS Group, in particular to the Income Statement on page 265, the Balance Sheet on page 267, the Statement of Cash Flows on pages 271-272 (inclusive) and the Notes to the Consolidated Financial Statements on pages 273-378 (inclusive), and

(ii) the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement on page 380, the Balance Sheet on page 381, the Statement of Appropriation of Retained Earnings on page 382, the Notes to the Parent Bank Financial Statements on pages 383–399 (inclusive) and the Parent Bank Review on page 379, and

(iii) the sections entitled **Introduction and accounting principles** on page 254 and **Critical accounting policies** on pages 255-258 (inclusive).

The annual financial reports form an essential part of UBS's reporting. They include the audited Consolidated Financial Statements of UBS Group, prepared in accordance with International Financial Reporting Standards and the audited Financial Statements of UBS AG (Parent Bank), prepared according to Swiss banking law provisions. The financial statements also include certain additional disclosures required under Swiss and US 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 2009 and 2010 were audited by Ernst & Young. The reports of the auditors on the Consolidated Financial Statements can be found on pages 252-253 (inclusive) of the Annual Report 2009 in English (Financial Information section) and on pages 262-263 (inclusive) of the Annual Report 2010 in English (Financial Information section). The reports of the auditors on the Financial Statements of UBS AG (Parent Bank) can be found on pages 393-394 of the Annual Report 2009 in English (Financial Information section) and on pages 400-401 of the Annual Report 2010 in English (Financial Information section).

7.3 Incorporation by reference

UBS's Annual Report 2009 and Annual Report 2010 form an integral component of this document, and are therefore fully incorporated in this document.

7.4 Litigation and regulatory matters

UBS operates in a legal and regulatory environment that exposes it to significant litigation risks. 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 cases are subject to many uncertainties, and their outcome is often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. In certain circumstances, to avoid the expense and distraction of legal proceedings, UBS may, based on a cost-benefit analysis, enter into a settlement even though UBS denies any wrongdoing. The Group makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reliably estimated.

Certain potentially significant legal proceedings or threatened proceedings within the last twelve months until the date of this document are described below. In some cases UBS provides the amount of damages claimed, the size of a transaction or other information in order to assist investors in considering the magnitude of any potential exposure. UBS is unable to provide an estimate of the possible financial effect of particular claims or proceedings (where the possibility of an outflow is more than remote) beyond the level of current reserves established. Doing so can be expected to prejudice seriously UBS's position in these matters and would require UBS to provide speculative legal assessments as to claims and proceedings which involve unique fact patterns or novel legal theories, have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimant. In many cases a combination of these factors impedes UBS's ability to estimate the financial effect of contingent liabilities.

(a) Municipal Bonds: in November 2006, UBS and others received subpoenas from the Antitrust Division of the US Department of Justice (**DOJ**) and the US Securities and Exchange Commission (**SEC**) seeking information relating to the investment of proceeds of municipal bond issuances and associated derivative transactions. In addition, various state Attorneys General have issued subpoenas seeking similar information. The investigations are ongoing, and UBS is cooperating. Several putative class actions also have been filed in Federal District Courts against UBS and numerous other firms. In the SEC investigation, on 4 February 2008, UBS received a "Wells notice" advising that the SEC staff is considering recommending that the SEC bring a civil action against UBS in connection with the bidding of various financial instruments associated with municipal securities. In December 2010, three former UBS employees were indicted in connection with the Federal criminal antitrust investigation. Discussions with the SEC, DOJ and a number of state Attorneys General are ongoing.

(b) Auction Rate Securities: UBS was the subject of an SEC investigation and state regulatory actions relating to the marketing and sale of auction rate securities (**ARS**) to clients, and to UBS's role and participation in ARS auctions and underwriting of ARS. UBS was also named in several putative class actions and individual civil suits and arbitrations. The regulatory actions and investigations and the civil proceedings followed the disruption in the markets for these securities and related auction failures since mid-February 2008. At the end of 2008 UBS entered into settlements with the SEC, the New York Attorney General (**NYAG**) and the Massachusetts Securities Division whereby UBS agreed to offer to buy back ARS from eligible customers within certain time periods, the last of which began on 30 June 2010, and to pay penalties of USD 150 million (USD 75 million to the NYAG, USD 75

million to the other states). UBS's settlement is largely in line with similar industry regulatory settlements. UBS has settled with the majority of states and is continuing to finalize settlements with the rest. The fines being paid in these state settlements are being charged against the USD 150 million provision that was established in 2008. The SEC continues to investigate individuals affiliated with UBS regarding the trading in ARS and disclosures. During the third quarter of 2010, a claimant alleging consequential damages from the illiquidity of ARS was awarded approximately USD 80 million by an arbitration panel and UBS has booked a provision of CHF 78 million relating to the case. UBS moved in state court to vacate the award and oral argument was heard on that motion in December 2010. UBS is the subject of other pending arbitration and litigation claims by clients and issuers relating to ARS.

(c) US Cross-Border: UBS has been the subject of a number of governmental inquiries and investigations relating to its crossborder private banking services to US private clients during the years 2000–2007. On 18 February 2009, UBS announced that it had entered into a Deferred Prosecution Agreement (**DPA**) with the US Department of Justice Tax Division (**DOJ**) and the United States Attorney's Office for the Southern District of Florida, and a Consent Order with the SEC, relating to these investigations. Pursuant to the DPA, the DOJ agreed that any further prosecution of UBS would be deferred for a period of at least 18 months, subject to extension in certain circumstances. The DPA provided that, if UBS satisfied all of its obligations thereunder, the DOJ would refrain permanently from pursuing charges against UBS relating to the investigation of its US cross-border business. As part of the resolution of an SEC claim that UBS acted as an unregulated broker dealer and investment advisor in connection with its US cross-border business, UBS reached a consent agreement with the SEC on the same date. On 15 September 2010, the independent consultant appointed pursuant to the DPA and SEC Consent Order to review UBS's compliance with its exit-related obligations submitted its final report to both the DOJ and the SEC, finding that UBS had substantially complied in all material respects with these obligations under these settlements. Because UBS fully complied with its commitments under the DPA, the US DOJ moved to dismiss all of the previously filed charges that had been deferred under the DPA. On 25 October 2010, the Court dismissed all the charges, marking the closure of the DPA.

On 19 August 2009, UBS executed a settlement agreement with the US Internal Revenue Service (**IRS**) and the DOJ, to resolve the previously reported enforcement action relating to the "John Doe" summons served on UBS in July 2008 (**UBS-US Settlement Agreement**). At the same time, the United States and Switzerland entered into a separate but related agreement (Swiss-US Government Agreement), providing that the Swiss Federal Tax Administration (SFTA) process a request for administrative assistance under the Swiss-US Double Taxation Treaty related to an estimated number of approximately 4,450 accounts held by US taxpayers. Because UBS complied with all of its obligations set forth in the UBS-US Settlement Agreement required to be completed by the end of 2009, the IRS withdrew the "John Doe" summons with prejudice as to all accounts not covered by the treaty request. In March 2010, the Swiss and US governments signed a protocol amending the Swiss-US Government Agreement, and the agreement, as amended by the protocol, was approved by the Swiss Parliament on 17 June 2010. In August 2010, the IRS withdrew with prejudice the Notice of Default it had served on UBS in May 2008 with respect to the Qualified Intermediary Agreement between UBS and the IRS. On 15 November 2010, the IRS withdrew the "John Doe" summons in its entirety and with prejudice. This represented the final formal step in the comprehensive resolution of the US cross-border matter.

(d) Inquiries Regarding Non-US 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. UBS is cooperating with these requests within the limits of financial privacy obligations under Swiss and other applicable laws.

(e) Matters Related to the Credit Crisis: UBS is responding to a number of governmental inquiries and investigations and is involved in a number of litigations, arbitrations and disputes related to the credit crisis and in particular mortgage-related securities and other structured transactions and derivatives. In particular, the SEC is investigating UBS's valuation of super senior tranches of collateralized debt obligations (**CDOs**) during the third quarter of 2007 and UBS's reclassification of financial assets pursuant to amendments to IAS 39 during the fourth quarter of 2008. UBS has provided documents and testimony to the SEC and is continuing to cooperate with the SEC in its investigation. UBS has also communicated with and has responded to other inquiries by various governmental and regulatory authorities, including the Swiss Financial Market Supervisory Authority (**FINMA**), the UK Financial Services Authority (**FSA**), the SEC, the US Financial Industry Regulatory Authority (**FINRA**), the Financial Crisis Inquiry Commission (**FCIC**), the New York Attorney General, and the US Department of Justice, concerning various matters related to the credit crisis. These matters concern, among other things, UBS's (i) disclosures and writedowns, (ii) interactions with rating agencies, (iii) risk control, valuation, structuring and marketing of mortgage-related instruments, and (iv) role as underwriter in securities offerings for other issuers.

(f) Lehman Principal Protection Notes: from March 2007 through September 2008, UBS 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. UBS has been named along with other defendants in a putative class action alleging materially misleading statements and omissions in the prospectuses relating to these notes and asserting claims under US securities laws. UBS has also been named in numerous individual civil suits and customer arbitrations (some of which have resulted in settlements or adverse judgments), was named in a proceeding brought by the New Hampshire Bureau of Securities, and is responding to investigations by other state regulators and FINRA relating to the sale of these notes to UBS customers. The customer litigations and regulatory investigations relate primarily to whether UBS adequately disclosed the risks of these notes to its customers.

(g) Claims Related to Sales of RMBS and Mortgages: from 2002 through about 2007, UBS was a substantial underwriter and issuer of US residential mortgage-backed securities (**RMBS**). UBS has been named as a defendant relating to its role as underwriter and issuer of RMBS in more than 20 lawsuits relating to at least USD 39 billion in original face amount of RMBS underwritten or issued by UBS. Most of the lawsuits are in their early stages. Many have not advanced beyond the motion to dismiss phase; some are in the early stages of discovery. Of the original face amount of RMBS at issue in these cases, approximately USD 4.5 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. The remaining USD 34.5 billion of RMBS to which these cases relate was issued in third-party securitizations where UBS acted as underwriter. In connection with most of the claims included in this latter category, UBS currently expects to be indemnified by the issuers against any loss or liability. These RMBS-related claims include cases in which UBS is named as a defendant in litigation by insurers of RMBS seeking recovery of insurance paid to RMBS investors. These insurers allege that

UBS and other RMBS underwriters aided and abetted misrepresentations and fraud by RMBS issuers, and claim equitable and contractual subrogation rights. UBS has also been contacted by certain government-sponsored enterprises requesting that UBS repurchase USD 2 billion of securities issued in UBS-sponsored RMBS offerings.

As described below under section 7.5 "Other contingent liabilities" UBS also has contractual obligations to repurchase US residential mortgage loans as to which its representations made at the time of transfer prove to have been materially inaccurate. Contested loan repurchase demands relating to loans with an initial principal balance of USD 30 million are the subject of litigation.

(h) 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 the firm's disclosures relating to its positions and losses in mortgage-related securities, its positions and losses in auction rate securities, and its US cross-border business. Defendants have moved to dismiss the complaint for failure to state a claim. 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. Defendants have moved to dismiss the ERISA complaint for failure to state a claim.

(i) 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 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 under 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. Between February and May 2009 UBS (Luxembourg) SA responded to criticisms made by the CSSF in relation to its responsibilities as custodian bank and demonstrated to the satisfaction of the CSSF that it has the infrastructure and internal organization in place in accordance with professional standards applicable to custodian banks in Luxembourg. In December 2009 and March 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. 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 against the March 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, amongst others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in November 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 is no less than USD

2 billion. A second claim was filed in December 2010 against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants is not less than USD 555 million. 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.

(j) Transactions with City of Milan and Other Italian Public Sector Entities: in January 2009, the City of Milan filed civil proceedings 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 the City of Milan between 2005 and 2007. The claim is to recover alleged damages in an amount which will compensate for terms of the related derivatives which the City claims to be objectionable. In the alternative, the City seeks to recover alleged hidden profits asserted to have been made by the banks in an amount of approximately EUR 88 million (of which UBS Limited is alleged to have received approximately EUR 16 million) together with further damages of not less than EUR 150 million. The claims are made against all of the banks on a joint and several basis. In addition, two current UBS employees and one former employee, together with employees from other banks, a former City officer and a former adviser to the City, are facing a criminal trial for alleged "aggravated fraud" in relation to the City's 2005 bond issue and the execution, and subsequent restructuring, of certain related derivative transactions. The primary allegation is that UBS Limited and the other international banks fraudulently obtained hidden and/or illegal profits by entering into the derivative contracts with the City of Milan. The banks also face an administrative charge of failing to have in place a business organizational model to avoid the alleged misconduct by employees, the sanctions for which could include a limitation on activities in Italy. The City has separately asserted claims for damages against UBS Limited and UBS individuals in relation to this alleged failure. A number of transactions with other public entity counterparties in Italy have also been called into question or become the subject of legal proceedings and claims for damages and other awards. These include derivative transactions with the Regions of Calabria, Tuscany, Lombardy and Lazio and the City of Florence. UBS has itself issued proceedings before English courts in connection with a number of derivative transactions with Italian public entities, including some of those mentioned above, aimed at obtaining declaratory judgments as to the legitimacy of UBS's behaviour.

(k) HSH Nordbank AG (**HSH**): HSH has filed an action against UBS in New York State court relating to USD 500 million of notes acquired by HSH in a synthetic CDO transaction known as North Street Referenced Linked Notes, 2002-4 Limited (**NS4**). The notes were linked through a credit default swap between the NS4 issuer and UBS to a reference pool of corporate bonds and asset-backed securities. HSH alleges that UBS knowingly misrepresented the risk in the transaction, sold HSH notes with "embedded losses", and improperly profited at HSH's expense by misusing its right to substitute assets in the reference pool within specified parameters. HSH is seeking USD 500 million in compensatory damages plus pre-judgment interest. The case was initially filed in 2008. Following orders issued in 2008 and 2009, in which the court dismissed most of HSH's claims and its punitive damages demand and later partially denied a motion to dismiss certain repleaded claims, the claims remaining in the case are for fraud, breach of contract and breach of the implied covenant of good faith and fair dealing. Both sides have appealed the court's most recent partial dismissal order, and a decision on the appeal is pending.

(l) Kommunale Wasserwerke Leipzig GmbH (**KWL**): in 2006 and 2007, KWL entered into a series of managed Credit Default Swap transactions with bank swap counterparties, including UBS. Under the CDS contracts between KWL and UBS, the last of which were

terminated by UBS on 18 October 2010, a net sum of approximately USD 138 million has fallen due from KWL but not been paid. In January 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. On 15 October 2010, the English court dismissed an application by KWL contesting its jurisdiction, and ruled that it has jurisdiction and will hear the proceedings. On 18 October 2010, UBS issued a further claim against KWL in the English court seeking declarations concerning the validity of UBS's early termination on that date of the remaining CDS with KWL. On 11 November 2010, the English Supreme Court ruled in a case concerning similar jurisdictional issues, but not involving UBS, that certain questions should be referred to the European Court of Justice. Thereafter, KWL was granted permission to appeal certain jurisdictional aspects of its claim, and the court ordered a temporary stay of the proceedings related to UBS's claim for a declaration as to validity. In March 2010, KWL issued proceedings in Leipzig, Germany, against UBS and other banks involved in these contracts, 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. UBS is contesting the claims and has also contested the jurisdiction of the Leipzig court. The Leipzig court indicated in August 2010 that it did not have jurisdiction over KWL's claim. Subsequently, KWL made a further submission in October 2010 making additional allegations including fraudulent collusion by UBS employees. On 15 February 2011, the Leipzig court proposed that the proceedings in Leipzig be stayed against UBS and the other banks pending the outcome of the appeal on the jurisdiction aspects in England.

The other two banks that entered into CDS transactions with KWL entered into back-to-back CDS transactions with UBS. In April 2010, UBS issued separate proceedings in the English High Court against those bank swap counterparties seeking declarations as to the parties' obligations under those transactions. The aggregate amount that UBS contends is outstanding under those transactions is approximately USD 189 million. These English proceedings are also currently stayed.

It is reported that in January 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.

(m) Puerto Rico: the SEC has been investigating UBS's secondary market trading and associated disclosures involving shares of closed-end funds managed by UBS Asset Managers of Puerto Rico, principally in 2008 and 2009. In November 2010, the SEC issued a "Wells notice" to two UBS subsidiaries, advising them that the SEC staff is considering whether to recommend that the SEC bring a civil action against them relating to these matters. UBS believes that the negative financial results, if any, to shareholders of the funds who traded their shares through UBS during the relevant periods were less than USD 5 million in the aggregate. There is, however, no assurance that the SEC's staff will agree with UBS's analysis.

(n) LIBOR: UBS has received subpoenas from the SEC, the US Commodity Futures Trading Commission and the US Department of Justice in connection with investigations regarding submissions to the British Bankers' Association, which sets LIBOR rates. UBS understands that the investigations focus on whether there were improper attempts by UBS, either acting on its own or together with others, to manipulate LIBOR rates at certain times. In addition, UBS has received an order to provide information to the Japan Financial Services Agency concerning similar matters. UBS is conducting an internal review and is cooperating with the investigations.

Besides the proceedings specified above under (a) through (n) no governmental, legal or arbitration proceedings, which may significantly affect UBS's financial position, are or have been pending during the last twelve months until the date of this document, nor is the Issuer aware that any such governmental, legal or arbitration proceedings are threatened.

7.5 Other contingent liabilities

Demands Related to Sales of Mortgages and RMBS

For several years prior to the crisis in the US residential mortgage loan market, UBS sponsored securitizations 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. The overall market for privately issued US RMBS during this period was approximately USD 3.9 trillion.

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.

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 most cases contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has been notified by certain institutional purchasers and insurers of mortgage loans and RMBS that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. UBS has received relatively few repurchase demands and has repurchased only a small fraction of the underlying loans.

In the period from 2006 through 2009, UBS received demands to repurchase loans having an original principal balance of approximately USD 356 million in the aggregate. Of that principal balance of USD 356 million, UBS has repurchased or agreed to repurchase loans accounting for about 5%. Repurchase demands accounting for about 45% were rescinded after rebuttal by UBS. Demands accounting for a further 41% either were rebutted by UBS but not rescinded (and are the subject of ongoing discussions) or were not pursued by the party making the demand. Repurchase demands accounting for about 9% are the subject of ongoing litigation.

In 2010, UBS received demands to repurchase additional loans having an original principal balance of approximately USD 350 million. Of that principal balance of USD 350 million, UBS has agreed to repurchase loans accounting for about 12%, repurchase demands accounting for about 67% have been rebutted by UBS but not rescinded, UBS continues to review repurchase demands accounting for about 15%, and demands accounting for about 6% are being resolved between the repurchase requestor and the originators of the loans. UBS expects that the majority of the underlying loans subject to these 2010 repurchase demands will ultimately not be required to be repurchased. Since 1 January 2011 UBS has received demands to repurchase additional loans having an original principal balance of approximately USD 5 million. Those loans are under review.

UBS established by the end of the fourth quarter 2010 a USD 97 million provision based on its best estimate of the loss arising from loan repurchase demands received from 2006 through 2010 to

which UBS has agreed, or which UBS has rebutted but which are unresolved, and for certain anticipated loan repurchase demands of which UBS has been informed. It is not yet clear when or to what extent this provision will be utilized in connection with actual repurchases or indemnity payments, because both the submission of anticipated demands and the timing of resolution of such demands are uncertain. UBS nevertheless expects that most of the repurchases and payments related to the demands received in 2010, excluding any that become the subject of litigation, will occur in 2011.

UBS has made indemnity payments in amounts equivalent to 62% of the original principal balance of already-liquidated loans that were the subject of 2010 demands to which UBS agreed. With respect to unliquidated loans that UBS agreed to repurchase in response to demands made in 2010, UBS does not yet have sufficient information to estimate the charge it will recognize upon repurchase. 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 prior to repurchase. It is not possible to predict future indemnity rates or percentage losses upon repurchase for reasons including timing and market uncertainties as well as possible differences in the characteristics of loans that may be the subject of future demands compared to those that have been the subject of past demands.

In most instances in which UBS would be required to repurchase loans or indemnify against losses 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 third-party originators that remain solvent. In respect of loans that UBS has agreed to repurchase pursuant to demands received in 2010, UBS has in turn asserted indemnity or repurchase demands against third parties for loans with an aggregate original principal balance of USD 29 million. Only a small number of UBS's demands have been resolved, and UBS has not recognized any asset in respect of the unresolved demands.

UBS cannot reliably estimate the level of future repurchase demands, and does not know whether its past success rate in rebutting such demands will be a good predictor of future success. UBS also cannot reliably estimate the timing of any such demands.

As described above under section 7.4 **Litigation and regulatory matters** UBS is also subject to claims and threatened claims in connection with its role as underwriter and issuer of RMBS, and certain loan repurchase demands are also the subject of litigation.

7.6 Material Contracts

No material agreements have been concluded outside of the normal course of business which could lead to UBS being subjected to an obligation or obtaining a right, which would be of key significance to the Issuer's ability to meet its obligations to the investors in relation to the issued securities.

7.7 Significant Changes in the Financial Situation

There has been no material change in the financial position of UBS since the publication of UBS's Annual Report 2010 (including audited consolidated financial statements) for the period ending on 31 December 2010.

8. SHARE CAPITAL

As of 31 December 2010, UBS AG had recorded in the Commercial Register of Zurich and the Commercial Register of Basel-City (i) fully paid and issued share capital of CHF 383,080,526.80, divided into 3,830,805,268 registered shares with a par value of CHF 0.10 each, (ii) no authorized capital and (iii) conditional share capital in the amount of CHF 62,995,595.70, comprising 629,955,957 registered shares with a par value of CHF 0.10 each.

9. DOCUMENTS ON DISPLAY

- The Annual Report of UBS AG as of 31 December 2009, comprising the sections (i) Strategy, performance and responsibility, (ii) UBS business divisions and Corporate Center (iii) Risk and treasury management, (iv) Corporate governance and compensation, (v) 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 2010, comprising the sections (i) Strategy, performance and responsibility, (ii) UBS business divisions and Corporate Center (iii) Risk and treasury management, (iv) Corporate governance and compensation, (v) 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 Review 2009 and 2010 and the Compensation Report 2009 and 2010; and

- The Articles of Association of UBS AG, as the Issuer,

shall be maintained in printed format, for free distribution, at the offices of the Issuer for a period of twelve months after the publication of this document. In addition, the annual and quarterly reports of UBS AG (and related review and compensation report) 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."

AMENDMENT TO THE GENERAL INFORMATION

Paragraph (e) of the "General Information" section on page 321 of the Base Prospectus is deleted and replaced with the following:

"(e) Except as disclosed in this Base Prospectus there has been no material adverse change in the prospects of the Issuer or the Guarantor and no significant change in the financial or trading position of the UBS Group or the Guarantor since, in the case of the Issuer and the UBS Group, 31 December 2010 and, in the case of the Guarantor, since the date of its incorporation."

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 statements in (a) above will prevail.

Save as disclosed in this Base Prospectus Supplement, there has been no other significant new factor, material mistake or inaccuracy relating to the information included in the Base Prospectus which is capable

of affecting the assessment of Covered Bonds issued under the Programme since the publication of the Base Prospectus.

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, to withdraw their acceptances.

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.

The date of this Base Prospectus Supplement to the Base Prospectus is 27 May 2011.