FINAL TERMS No. 8127

dated 7 July 2011

regarding an issue of

up to Euro 35,000,000 of "UBS Azionario Italia 2016" Fund Linked Notes due 2016 ("Notes")

(ISIN: DE000UB74N82)

in connection with the Base Prospectus dated 30 November 2010, as supplemented by a supplement from time to time,

regarding the

Structured Note Programme of

UBS AG

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**in connection with the Base Prospectus dated 30 November 2010,
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UBS AG

THE RISK FACTORS RELATING TO THE NOTES AND RELATING TO THE ISSUER ARE SET OUT IN APPENDIX C TO THESE FINAL TERMS

THIS PRODUCT DOES NOT REPRESENT A PARTICIPATION IN ANY OF THE COLLECTIVE INVESTMENT SCHEMES PURSUANT TO ART. 7 SS OF THE SWISS FEDERAL ACT ON COLLECTIVE INVESTMENT SCHEMES (CISA) AND THUS IS NOT SUBJECT TO THE SUPERVISION OF THE SWISS FINANCIAL MARKET SUPERVISORY AUTHORITY FINMA (*EIDGENÖSSISCHE FINANZMARKTAUFSICHT FINMA*). THEREFORE, INVESTORS IN THIS PRODUCT ARE NOT ELIGIBLE FOR THE SPECIFIC INVESTOR PROTECTION UNDER THE CISA.

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7 July 2011

ISIN:	DE000UB74N82
Common Code:	064109219
German WKN:	UB74N8
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Issue of up to Euro 35,000,000 of "UBS Azionario Italia 2016" Fund Linked Notes ("Notes") due 2016 (the "Notes")

These Final Terms are issued to give details of an issue under the Structured Note Programme of UBS AG, UBS AG, Jersey Branch and UBS AG, London Branch (the "**Programme**") and are to be read in conjunction with the Base Prospectus dated 30 November 2010, as supplemented by a supplement from time to time. The terms and conditions applicable to the Notes (the "**Conditions**") and the English or German language translation thereof, as the case may be, if any, are attached to these Final Terms. They replace in full the Terms and Conditions of the Notes as set out in the Base Prospectus and take precedence over any conflicting provisions of these Final Terms.

Save as disclosed in item 17 below, so far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

Capitalised terms used in the section relating to Index Linked Notes, Equity Linked Notes, Commodity Linked Notes; Fund Linked Notes and Credit Linked Notes and not otherwise defined herein or in the Conditions shall have the meaning set out in the 2002 ISDA Equity Derivatives Definitions, the 2005 ISDA Commodity Definitions and, as the case may be, in the 2003 ISDA Credit Derivatives Definitions published by the International Swaps and Derivatives Association, Inc., save that any references to the 'Related Confirmation' shall be deemed to refer to the relevant Final Terms.

The Issuer accepts responsibility for the information contained in these Final Terms and declares, that having taken all reasonable care to ensure that such is the case, the information contained in these Final terms is, to the best knowledge, in accordance with the facts and contains no omission likely to affect its import, save for the information regarding (the issuer(s) of) the Underlying, the Relevant Commodity, the Index, the Indices. The information included herein with respect to (the issuer(s) of) the Underlying, the Relevant Commodity, the Index, the Indices consists of extracts from, or summaries of, annual reports and other publicly available information. The Issuer makes no representation that any publicly available information or any other publicly available documents regarding the issuer(s) of the Underlying, the Relevant Commodity, the Index or the Indices are accurate and complete and does not accept any responsibility in respect of such information. There can be no assurance that all events occurring prior to the date of these Final Terms that would affect the trading price of the Underlying, the Relevant Commodity, the Index or the Indices (and therefore the trading price and value of the Notes) have been publicly disclosed. Subsequent disclosure of any such events or the disclosure or failure to disclose material future events concerning the Underlying, the Relevant Commodity, the Index or Indices could affect the trading price and value of the Notes.

These Final Terms do not constitute an offer to sell or the solicitation of an offer to buy any Notes or an investment recommendation. Neither the delivery of these Final Terms nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the issuer(s) of the Underlying since the date hereof or that the information contained herein is correct as of any date subsequent to this date.

The distribution of these Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession these Final Terms come are required by the Issuer to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on the offering and sale of the Series, see "*Subscription and Sale*" of the Base Prospectus as supplemented or amended by these Final Terms.

1.	Issuer:	UBS AG acting through UBS AG, London Branch
2.	Series Number:	8127
3.	Language of Conditions:	English (English controlling)
4.	Specified Currency or Currencies:	Euro ("**EUR**")
5.	Aggregate Principal Amount:	Up to EUR 35,000,000
6.	Issue Price:	100 per cent. of the Specified Denomination (the Management Fees, the Selling Fees – both as defined below under item 46 (i) and (ii) "Commission" below – the implicit derivative component and the bond component, shall concur to the Issue Price as follows): Value of the bond component: 88.25 per cent. Value of the implicit derivative component: 7.50 per cent. Selling Fees: 3.40 per cent. Management Fees: 0.85 per cent. Issue Price: 100 per cent.
7.	Specified Denomination:	EUR 1,000
8.	(i) Issue Date:	31 August 2011
	(ii) Interest Commencement Date:	Issue Date
9.	Maturity Date:	31 August 2016. If a notional investor of Fund Units (as defined in §4a of the Conditions in Appendix B to the Final Terms) having requested redemption as at the Final Observation Date (as defined in §4a of the Conditions in Appendix B to the Final Terms) by giving the appropriate notice, would have actually received full liquidation proceeds for the Investment Fund (as defined in §4a of the Conditions in Appendix B to the Final Terms respectively) only after 31 August 2016, the Maturity Date shall be the seventh Business Day (as defined in §5(2) of the Conditions in Appendix B to the Final Terms) after such date.
10.	(i) Interest Basis:	3.65 per cent. Fixed Rate (further details see item 18 and §3 of the Conditions in Appendix B to the

			Final Terms).
	(ix)	Day Count Fraction:	Act/Act ICMA
11.		Redemption/Payment Basis:	Fund Linked Redemption at least equal to Protection Amount as defined in §4a of the Conditions in Appendix B to the Final Terms.
12.		Change of Interest or Redemption/Payment Basis:	Not Applicable
13.		Put/Call Options:	Issuer's Call (further particulars specified below under item 24)
14.	(i)	Listing:	Not Applicable
	(ix)	Trading:	Not Applicable
	(ix)	Last Trading Date:	Not Applicable
	(ix)	Additional existing listings:	Not Applicable
15.		Estimated Expenses:	Not Applicable
16.		Use of Proceeds:	Not Applicable
17.		Material Interest:	Not Applicable

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18.		Fixed Rate Note Provisions:	Applicable *Anwendbar*
	(ix)	Rate(s) of Interest:	See Interest Payment Date(s) under §3 of the Conditions in Appendix B to the Final Terms
	(ix)	Interest Payment Date(s):	See Interest Payment Date(s) under §3 of the Conditions in Appendix B to the Final Terms
	(ix)	Fixed Coupon Amount(s):	See Interest Payment Date(s) under §3 of the Conditions in Appendix B to the Final Terms
	(iv)	Broken Amount(s):	Not Applicable
	(ix)	Other terms relating to the method of calculating interest:	None
	(ix)	Yield:	Not Applicable
	(ix)	Method of calculating the yield:	Not Applicable
19.		Floating Rate Note Provisions:	Not Applicable

20.	Constant Maturity Swap Floating Rate Notes / Constant Maturity Swap Spread-Linked Notes*:*	Not Applicable
21.	Zero Coupon Note Provisions:	Not Applicable
22.	Interest Bearing Fund Linked Notes: *B*	Not Applicable

PROVISIONS RELATING TO REDEMPTION

23.	Automatic Exercise:	Not Applicable
24.	Call Option (§4(3)):	Applicable, further particulars see Appendix B
	(ix) Optional Redemption Date(s):	The Call Optional Redemption Date, as defined in §4(3) of the Conditions in Appendix B to the Final Terms.
	(ix) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	An amount per Note as defined in §4(5) of the Conditions in Appendix B to the Final Terms.
	(iii) If redeemable in part:	Not Applicable
	(a) Minimum Redemption Amount:	Not Applicable
	(ix) Higher (Maximum) Redemption Amount:	Not Applicable
	(iv) Notice period:	As defined in §4(3) of the Conditions in Appendix B to the Final Terms.
	(ix) Option Exercise Date(s):	Not Applicable
25.	Automatic Early Redemption **[**(§4(**[**3**][**4**]**))**]**:	Not Applicable
26.	Put Option **[**(§4(**[**3**][**4**][**5**]**))**]**:	Not Applicable
27.	§ 4(4) Early Redemption following the occurrence of:	
	(ix) Change in Law:	Applicable
	(ix) Hedging Disruption:	Applicable
	(ix) Increased Cost of Hedging:	Applicable
28.	Final Redemption Amount of each Note:	Fund Linked Redemption Amount at least equal to Protection Amount as defined in §4a of the Conditions in Appendix B to the Final Terms.

29.	Early Redemption Amount(s) of each Note payable on redemption on an Event of Default or Tax Call and/ or the method of calculating the same (if required or if different from that set out in §4):	An amount per Note as defined in §4(5) of the Conditions in Appendix B to the Final Terms.

PROVISIONS RELATING TO FUND LINKED NOTES

30.	Fund Linked Note Provisions:	Applicable in relation to the Fund Linked Redemption Amount
(ix)	Underlying:	A share (the "**Fund Unit**") of PRIMA Geo Italia fund (the "**Investment Fund**") with the Bloomberg Code: DUCGITY IM Equity) managed by PRIMA SGR S.p.A. (the "**Fund Manager**"), as further described in Appendix A to the Final Terms)
(ix)	Formula to determine Fund Linked Redemption Amount:	An amount per Note as defined in §4a of the Conditions in Appendix B to the Final Terms.
(ix)	Provisions where calculation by reference to the Underlying and/or formula is impossible or impracticable:	See §4c of the Conditions in Appendix B to the Final Terms.
(iv)	Provisions relating to the determination of the Reference Asset Amount:	Not Applicable
(ix)	Fund Valuation Date(s):	See §4a of the Conditions in Appendix B to the Final Terms.
(ix)	Fund Valuation Time:	Not Applicable
(ix)	Method of calculating the Early Redemption Amount (other than following an Event of Default or Tax Call):	See §4(5) of the Conditions in Appendix B to the Final Terms.
(ix)	Protection Amount:	When held until the Maturity Date and not redeemed early by the Issuer, these Notes are 100 per cent. principal protected.
(ix)	Additional provisions:	See §§4a, 4b and 4c of the Conditions in Appendix B to the Final Terms.

GENERAL PROVISIONS APPLICABLE TO THE NOTES

31.	Form of Notes	Permanent Global Note
32.	Relevant Financial Centre(s) or other special provisions relating to Payment Days (§5(2)):	TARGET and Milan
33.	Details relating to Partly Paid Notes:	Not Applicable
34.	Rebalancing:	Not Applicable
35.	Redenomination, renominalisation and reconventioning provisions:	Not Applicable
36.	Consolidation Provisions:	Not Applicable
37.	Additional Provisions:	Not Applicable
38.	Additional Tax Disclosure:	Information regarding the taxation *in the Republic of Italy Section "Taxation" in the Base Prospectus. Potential Investors are invited to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, sale and redemption of the Notes. Only these advisors are in a position to duly consider the specific situation of the potential investors.*

DISTRIBUTION
ANGABEN ZUR PLATZIERUNG

39.	Method of Distribution:	Non-Syndicated
40.	(i) If syndicated, names of Managers:	Not Applicable
	(ii) Firm commitment:	Not Applicable
	(iii) No firm commitment/best efforts arrangement:	Not Applicable
41.	Intermediaries in Secondary Trading:	MPS Capital Services Banca per le Imprese S.p.A ("**MPSCS**")
	(i) Stabilising Manager:	Not Applicable
	(ii) Other:	Application will be made for admission to trading on the Negotiation system named "De@lDone Trading" ("**DDT**"), managed solely by MPS Capital Services Banca per le Imprese S.p.A. acting as "exclusive dealer" (negoziatore unico). In relation to the Notes MPS Capital Services Banca per le Imprese S.p.A.

shall enter into a liquidity agreement with the Distributors (as defined in item 43 below). Under this agreement it shall be bound to make bid/ask prices which, referring to the Issuer's creditworthiness, will be determinated as follows:

(a) Until the total notional amount repurchased by MPSCS is less than or equal to the 5 per cent. of the nominal amount of Notes effectively placed, the price shall reflect the Issuer's funding level for the Notes itselves, equal to 3 months EURIBOR plus the funding spread equal to 0.66 per cent.;

(b) after that threshold has been reached, for the total remaining part of 95 per cent. of the nominal amount effectively placed the price shall reflect the prevailing market conditions as of the relevant purchase/selling date. In that case the 3 months EURIBOR will be increased by a different spread expressed by the asset swap spread, potentially increased of a 0.10 per cent., of some specific Issuer's benchmark debt securities.

To the price so determined, will be added, in case of purchase by the investor, a margin up to a maximum of 0.35 per cent. of the amount that will be purchased, or will be taken away, in case of sale by the investor, a margin up to a maximum of 1.50 per cent. of the amount to be sold.

Within 5 Business Days following, MPS Capital Services Banca per le Imprese S.p.A. shall publish on its website www.mpscapitalservices.it a notice informing the investors about the raising of 70 per cent. of the threshold sub (a) above.

Furthermore, within 5 Business Days following, MPS Capital Services Banca per le Imprese S.p.A. shall publish on its website www.mpscapitalservices.it a notice informing the investors about the raising of 100 per cent. of the threshold sub (a) above.

42.	Entity accepting subscriptions:	Applications for the Notes could be made by potential investors to any of the agencies of the Distributors (as defined below) during the opening banking hours in Italy.
43.	*Non-exempt Offer:*	An offer of Notes may be made by the Lead Manager other than pursuant to Article 3(2) of the Prospectus Directive in Italy (the "**Public Offer Jurisdiction**") as of 7 July 2011. Such an offer shall be carried out by the Lead Manager during the offer period as specified below under item 44 through the following entities, acting as distributors (each a "**Distributor**" and together the "**Distributors**"): **Banca Monte dei Paschi di Siena S.p.A**. registered office at Piazza Salimbeni, 3 – 53100 Siena Italy, **Banca Antonveneta** S.p.A., registered office at Piazzetta Turati, 2 - 35131 Padova Itally, **Biverbanca Cassa di Risparmio di Biella e Vercelli S.p.A.** registered office at Via Carso, 15 – 13900 Biella, Italy.
44.	Public offer and subscription period:	The subscription period for the Notes is from (and including) 7 July 2011 to (and including) 23 August 2011 during the Distributors' banking opening hours. The Notes placed pursuant to Article 30 of the Italian Legislative Decree of 24 February 1998, n. 58, as subsequently amended, will be offered from (and including) 7 July 2011 to (and including) 16 August 2011 (the "**First Offer Period**'). The Notes subscribed for during the First Offer Period will be delivered on the Issue Date against payment of the Issue Price (the "**First Settlement Date**"). If the maximum nominal amount of Notes offered for subscription has not been subscribed for at the close of the First Offer Period, the offer period for the Notes will be extended from (and including) 24 August 2011 to (and including) 7 September 2011 during the Distributors' banking opening hours. The Notes placed pursuant to Article 30 of the Italian Legislative Decree of 24 February 1998, n. 58, as subsequently amended, will be extended from

(and including) 24 August 2011 to (and including) 31 August 2011 (the "**Second Offer Period**").

The Notes subscribed for during the Second Offer Period will be delivered on 15 September 2011 (the "**Second Settlement Date**") against payment of the Issue Price plus accrued interest calculated as from the Issue Date of 0.14959%.

If the maximum nominal amount of Notes offered for subscription has not been subscribed for at the close of the Second Offer Period, the offer period for the Notes will be further extended from (and including) 8 September 2011 to (and including) 22 September 2011 during the Distributors' banking opening hours. The Notes placed pursuant to Article 30 of the Italian Legislative Decree of 24 February 1998, n. 58, as subsequently amended, will be further extended from (and including) 8 September 2011 to (and including) 15 September 2011 (the "**Third Offer Period**").

The Notes subscribed for during the Third Offer Period will be delivered on 30 September 2011 (the "**Third Settlement Date**") against payment of the Issue Price plus accrued interest calculated as from the Issue Date of 0.29918%.

The Issuer reserves the right to close each of the Offer Periods early. Notice of the early closure of any of the Offer Periods will be made to investors by means of a notice published on the Issuer's Websites, the Lead Manager's Website and on the Distributors' websites mentioned above.

45.	Subscription Agreement (if any):	
	(i) Date of subscription agreement:	Not Applicable
	(ii) General features of the subscription agreement:	Not Applicable

46.	Commissions:	
	(i) Management Commission:	0.85 per cent of the total amount of the Notes effectively placed to be paid by the Issuer to the Lead Manager on the Issue Date (the "**Management Fee**")
	(ii) Selling Commission:	3.40 per cent of the total amount of the Notes effectively placed to be paid by the Issuer to the Distributor through the Lead Manager on the Issue Date (the "**Selling Fee**").
	(iii) Listing Commission:	None
	(iv) Other:	None
47.	Application Process:	Not Applicable
48.	Minimum and/or maximum amount of application:	Minimum amount: EUR 1,000
49.	Process for notification:	Not Applicable
50.	Categories of potential investors:	Institutional and retail investors
51.	Information with regard to the manner and date of the offer:	Not Applicable
52.	If non-syndicated, name of Lead Manager:	MPS Capital Services Banca per le Imprese S.p.A ("**Lead Manager**")
53.	Applicable TEFRA rules:	TEFRA D
54.	Additional selling restrictions:	Applicable
	Country:	Singapore and Hong Kong
55.	Certification of non-U.S. status:	Applicable
56.	Third Party Information:	Where information has been sourced from a third party, confirmation is given that this information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of information is set out where the relevant information is given. The Issuer has neither independently verified any such information, nor accepts any responsibility for error or omission made in the source

itself.

57.	Interest of natural and legal person(s) involved in the issue/offer:	Potential conflict of interests may arise - in respect of the Offer - on: (i) the Lead Manager and the Distributors, due to the fact they receive from the Issuer, respectively, Management Fees and Selling Fees; (ii) the Lead Manager and the Distributors due to the fact they both belong to the Montepaschi Banking Group, whose parent company is Banca Monte dei Paschi di Siena S.p.A.; (iii) the Lead Manager and the Issuer due to the fact that MPS Capital Services Banca per le Imprese S.p.A acts also as hedging counterparty of the Issuer in connection with the issue of the Notes; and (iv) the Calculation Agent, as defined below, due to the fact that it is the same entity as the Issuer. Furthermore, MPS Capital Services Banca per le Imprese S.p.A acts also as sole dealer (*negoziatore unico*) on the systematic internaliser named De@lDone Trading (DDT) on which application shall be made for the Notes to be admitted to trading. To be also noted that Banca Monte dei Paschi di Siena S.p.A., holding company of the same banking group of the Lead Manager and the Distributors (Montepaschi Banking Group) indirectly retains an equity interest equal to 33% of the share capital in PRIMA SGR S.p.A. - which manages the Investment Fund (as defined herein)

OPERATIONAL INFORMATION

58.	ISIN:	DE000UB74N82
59.	Common Code:	064109219
60.	Other Securities Code(s):	UB74N8 (German WKN)
61.	Swiss Security Number:	12516492
62.	(i) Clearing System(s):	Clearstream Banking AG, Frankfurt Neue Börsenstr. 1 D-60487 Frankfurt am Main Euroclear Bank S.A./N.V. 1. Boulevard du Roi Albert II B-1210 Brussels Clearstream Banking société anonyme, Luxembourg

		42 Avenue JF Kennedy L-1855 Luxembourg
	(ii) Clearing System for delivery of the Underlying Securities:	Not Applicable
	(iii) Physical Delivery:	Not Applicable
63.	Delivery:	Delivery against payment
64.	Fiscal and Paying Agent:	UBS Limited, London c/o UBS Deutschland AG Bockenheimer Landstrasse 2 – 6 60306 Frankfurt am Main Germany
65.	Additional Paying Agent(s) (if any):	Not Applicable
66.	Calculation Agent:	UBS AG, acting through UBS AG, London Branch 1 Finsbury Avenue GB-London EC2M 2PP

APPLICABLE LAW AND JURISDICTION

67.	Applicable law:	German law
68.	Place of jurisdiction:	Frankfurt am Main

Signed on behalf of the Issuer:

By: ____________________________
Duly authorised

By: ____________________________
Duly authorised

APPENDIX A
TO THE FINAL TERMS

DESCRIPTION OF THE FUND
(English version only)

The following information on the Investment Fund is solely intended for the description of the Notes and for the use of investors in the Notes and does not constitute an offer of shares in the Investment Fund.

The below presents an overview of the features of the Investment Fund. Further information about the Investment Fund (and in particular performance, costs and volatility) can be found at www.primasgr.com.

PRIMA Geo Italia Y Fund (Bloomberg-Code DUCGITY IM Equity; ISIN IT0004301153) is a class of shares denominated in EUR of the fund "PRIMA Geo Italia" (the "**Fund**") which is managed by Prima SGR.

Nature of the Fund

The objective of the Fund is to provide long term growth through investments in Euro denominated shares.

Primary investment focus

The Fund invests primarily in equities issued by Italian companies that show stable growth potential and an appropriate diversification by sector.

Other investment options

The Fund may have residual investments in companies of other European countries.

Derivatives transactions:
The use of derivatives is finalised to:
- the hedging and efficient portfolio management;
- the investment up to 30% of the net total value.

The use of derivatives is consistent with the risk/return profile of the fund; in fact, in relation to the purpose of investment, the Fund uses a maximum leverage of 1.3.
Main types of financial instruments and currency denomination: major investment in equity securities, denominated in the European countries' currencies.

Issuers' categories: Small or mid cap listed companies.

Risks related to the Fund

Participation in a fund involves risks connected to the possible changes in the value of the shares, which in turn are affected by fluctuations in the value of financial instruments in which the resources of the fund are invested.
The presence of these risks can determine the possibility of not obtaining, upon redemption, the return of the basic investment effected.
In particular, to appreciate the risk deriving from the investment of the fund's assets in financial instruments, the following elements need to be considered:

a) risk associated with price change: the price of each financial instrument depends from the peculiar characteristics of the issuer, from the performance of the markets and investment sectors, and can vary in a more or less accentuated way depending on its nature. In general, the change in the shares price is related to the income prospects of the companies issuing and may entail the reduction or even the loss of invested capital, while the value of the bonds is influenced by the interest rates' market and by the assessments on the ability of the issuer to meet the interest payments due as well as the reimbursement of the debt capital at maturity;

b) risk associated with liquidity: the fund could invest a residual amount of the allocation in shares of companies with small capitalization which might be impacted by a reduced liquidity. The liquidity of the financial instruments, i.e. their ability to be promptly converted themselves into cash without the impairment loss, depends on the characteristics of the market in which they are traded. In general, securities traded on regulated markets are more liquid, therefore less risky as they can be mobilized more easily than securities not traded on such markets. Moreover, the absence of an official listing complicates the appreciation of the effective value of the stock, whose determination may be referred to discretional judgment;

c) risk associated with the use of derivatives: the use of derivatives allows to assume positions of risk on financial instruments exceeding the initial disbursements incurred to open such positions (leverage). Consequently, a relatively small change in market prices has an amplified impact in terms of gains or losses on the managed portfolio as opposed to cases in which the leverage is not used;

The analysis of the investment policy of each fund allows the identification of specific risks associated with the participation to the fund.

APPENDIX B
TO THE FINAL TERMS

TERMS AND CONDITIONS
OF THE NOTES

This Series of Notes is issued under the Structured Note Programme of UBS AG. Copies of an Agency Agreement relating thereto as well as the ISDA Equity, Commodity and Credit Derivative Definitions are available for inspection during normal business hours by the holders of the Notes (the "**Noteholders**") at the specified offices of the Fiscal Agent.

§1
(Currency. Denomination. Form.
Clearing System)

(1) *Currency. Denomination.* This Series of Notes (the "**Notes**") of UBS AG acting through UBS AG, London Branch (the "**Issuer**") is issued in Euro (the "**Currency**" or "**EUR**") in an aggregate principal amount of up to EUR 35,000,000 (in words: thirtyfive million) on 31 August 2011 (the "**Issue Date**") and is divided in denominations of EUR 1,000 (the "**Specified Denomination**") and will be settling Tranche I on the Issue Date, Tranche II on 15 September 2011 and Tranche III on 30 September 2011. The Notes are being issued in bearer form and will not be represented by definitive notes.

(2) *Temporary Global Note – Exchange*.

(a) The Notes are initially represented by a temporary global note (the "**Temporary Global Note**") without coupons which will be exchangeable for a permanent global note (the "**Permanent Global Note**" and, together with the Temporary Global Note, each a "**Global Note**") without coupons. Each Global Note shall be signed manually by one authorised signatory of the Issuer and shall each be authenticated by or on behalf of the Fiscal Agent.

(b) The Temporary Global Note shall be exchanged for the Permanent Global Note on a date (the "**Exchange Date**") not earlier than 40 days and not later than 180 days after the Issue Date. Such exchange and any payment of interest on Notes represented by a Temporary Global Note shall only be made upon delivery of certifications to the effect that the beneficial owner or owners of the Notes represented by the Temporary Global Note is not a U.S. person as defined by the U.S. Securities Act of 1933. Any such certification received by the Fiscal Agent on or after the 40th day after the Issue Date will be treated as a request to exchange such Temporary Global Note as described above. Any securities delivered in exchange for the Temporary Global Note shall be delivered only outside of the United States.

(3) *Clearing System*. Each Global Note will be kept in custody by or on behalf of the Clearing System until all obligations of the Issuer under the Notes have been satisfied. "**Clearing System**" means each of the following: Clearstream Banking AG, Frankfurt am Main, Clearstream Banking *société anonyme*, Luxembourg and Euroclear Bank S.A./N.V. or any successor in this capacity. The Noteholders have claims to co-ownership shares of the respective Global Note which may be transferred in accordance with the rules and regulations of the respective Clearing System.

§2
(Status)

The obligations under the Notes constitute unsecured and unsubordinated obligations of the Issuer ranking *pari passu* among themselves and *pari passu* with all other unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by mandatory provisions of law.

§3
(Interest)

(1) *Interest Payment Dates.*

(a) The Notes bear interest at the fixed rate of interest of 3.65% on their Specified Denomination from, and including, the Issue Date (the **"Interest Commencement Date**") to, but excluding, the Interest Payment Date (the "**Interest Period"**) (corresponding to a fixed interest amount of EUR 36.50 per Note). Interest on the Notes shall be payable in arrears on the Interest Payment Date.

(b) "**Interest Payment Date for the Fixed Coupon**" means 31 August 2012. If any Interest Payment Date would fall on a day which is not a Business Day (as defined in §5(2)), the payment date shall be postponed to the next day which is a Business Day.

(2) "**Day Count Fraction**", in respect of the calculation of an amount for any period of time (the "**Calculation Period**") means:

(a) where the Calculation Period is equal to or shorter than the Interest Period during which it falls, the actual number of days in the Calculation Period divided by the product of (i) the actual number of days in such Interest Period and (ii) the number of Interest Periods in any calendar year; and

(b) where the Calculation Period is longer than one Interest Period, the sum of: (i) the actual number of days in such Calculation Period falling in the Interest Period in which it begins divided by the product of (x) the actual number of days in such Interest Period and (y) the number of Interest Periods in any year; and (ii) the actual number of days in such Calculation Period falling in the next Interest Period divided by the product of (x) the actual number of days in such Interest Period and (y) the number of Interest Periods in any year.

(3) If the Issuer for any reason fails to render any payment in respect of the Notes when due, interest shall continue to accrue at the default rate established by statutory law on the outstanding amount from and including the due date to but excluding the day on which such payment is received by or on behalf of the Noteholders.

§4
(Redemption)

(1) *Final Redemption*. The Notes shall be redeemed pursuant to §4b.

(2) *Tax Call*. Subject to an early termination pursuant to §4(3) or §4(4), as the case may be, the Notes shall be redeemed at their Early Redemption Amount together with interest accrued to the date fixed for redemption in accordance with the Day Count Fraction at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 days' notice to the Noteholders (which notice shall be irrevocable) by settlement in cash in accordance with §5 if; (i) on the occasion of the next payment or delivery due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in §6 as a result of any change in, or amendment to, the laws or regulations of Switzerland, the United Kingdom, Jersey or the Federal Republic of Germany ("**Germany**") or Italy or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures (but no Substitution of the Issuer pursuant to §10) available to it. Before the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by an executive director of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

(3) *Issuer's Call*. Subject to an early redemption pursuant to §4(2) or §4(4), as the case may be, if the Issuer is unable to select a suitable Successor Underlying (as defined in §4c(1)(a)) in the event of an Replacement Event (as defined in §4c(1)), the Issuer may redeem all, not some only, of the Notes then outstanding on each Business Day (as defined in §5(2)) below) (the "**Call Optional Redemption Date**") at their Optional Redemption Amount (as defined below in §4(5)) together with interest accrued to the date fixed for redemption in accordance with the Day Count Fraction upon having given (i) not less than five (5) Business Days' notice to the Noteholders in accordance with §12 and (ii) not less than seven (7) days' before the giving of the notice referred to in (i), notice to the Fiscal Agent (which notices shall be irrevocable and shall specify the Call Optional Redemption Date fixed for redemption).

(4) *Early Redemption following the occurrence of a Change in Law, Hedging Disruption and/or Increased Cost of Hedging*. Subject to an early redemption pursuant to §4(2) or §4(3), as the case may be, the Issuer may redeem the Notes at any time following the occurrence of a Change in Law and/or a Hedging Disruption and/or an Increased Cost of Hedging. The Issuer will redeem the Notes in whole (but not in part) on the second Business Day after the notice of early redemption in accordance with § 12 has been published (the "**Early Redemption Date**") and will pay or cause to be paid the Early Redemption Amount in respect of such Notes to the relevant Noteholders for value such Early Redemption Date, subject to any applicable fiscal or other laws or regulations and subject to and in accordance with these Terms and Conditions and the applicable Final Terms. Payments of any applicable taxes and redemption expenses will be made by the relevant Noteholder and the Issuer shall not have any liability in respect thereof.

Whereby:

"**Change in Law**" means that, on or after the Issue Date of the Notes (A) due to the adoption of or any change in any applicable law or regulation (including, without limitation, any tax law), or (B) due to the promulgation of or any change in the interpretation by any court, tribunal or regulatory authority with competent jurisdiction of any applicable law or regulation (including any action taken by a taxing authority), the Issuer determines in good faith that (X) it has become illegal to hold, acquire or dispose of the underlying relating to the Notes, or (Y) it will incur a materially increased cost in performing its obligations under the Notes (including, without limitation, due to any increase in tax liability, decrease in tax benefit or other adverse effect on its tax position).

"**Hedging Disruption**" means that the Issuer is unable, after using commercially reasonable efforts, to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge price risks of issuing and performing its obligations with respect to the Notes, or (B) realise, recover or remit the proceeds of any such transaction(s) or asset(s); and

"**Increased Cost of Hedging**" means that the Issuer would incur a materially increased (as compared with circumstances existing on the Issue Date) amount of tax, duty, expense or fee (other than brokerage commissions) to (A) acquire, establish, re-establish, substitute, maintain, unwind or dispose of any transaction(s) or asset(s) it deems necessary to hedge the price risk of issuing and performing its obligations with respect to the Notes, or (B) realise, recover or remit the proceeds of any such transaction(s) or asset(s), provided that any such materially increased amount that is incurred solely due to the deterioration of the creditworthiness of the Issuer shall not be deemed an Increased Cost of Hedging.

(5) *Redemption Amounts*. For the purposes of this § 4 and § 8 (Events of Default) the following applies:

The "**Early Redemption Amount**" in respect of each Note shall be an amount in EUR to be determined in the sole discretion of the Calculation Agent.

The "**Optional Redemption Amount**" in respect of each Note shall be an amount in EUR to be determined in the sole discretion of the Calculation Agent.

§4a
(Definitions)

"**Underlying Currency**" means the currency specified for the Investment Fund in Appendix A.

"**Underlying**" means the share (the "**Fund Unit**") in the PRIMA Geo Italia Fund (the "**Investment Fund**") with Bloomberg Code: DUCGITY IM Equity**.**

"**Averaging Date(s)**" means each of the following Dates:
17 February 2012
17 August 2012
17 February 2013
17 August 2013
17 February 2014
17 August 2014
17 February 2015
17 August 2015
17 February 2016
17 August 2016 (the "**Final Averaging Date**")

"**Maturity Date**" means 31 August 2016. If a notional investor of Fund Units having requested redemption as at the Final Observation Date by giving the appropriate notice, would have actually received full liquidation proceeds for the Investments Fund only after 31 August 2016, the Maturity Date shall be the seventh Business Day (as defined in §5(2)) after such date.

"**Fixing Date**" means 31 August 2011.

"**Fund Linked Redemption Amount**" means an amount, which shall be calculated by the Calculation Agent in accordance with the following formula:

Protection Amount + Specified Denomination x MAX [0; Participation x Fund Return]

corresponding to the sum of the Protection Amount and the product of (a) Specified Denomination and (b) the higher of (aa) zero and (bb) the Participation multiplied by the Fund Return.

"**Fund Valuation Date**" means the Fixing Date and each of the Averaging Dates.

"**Fund Business Day**" means any day on which (i) the administrator of the Investment Fund calculates and publishes the NAV and (ii) a notional investor could subscribe and redeem the Fund Units.

"**Fund Return**" means value determined in accordance with the following formula:

$$\frac{NAV^{Final} - NAV^{Initial}}{NAV^{Initial}};$$

Whereby:

"NAV^{Final}" means the arithmetic average of the amount per Fund Unit that a notional investor in such Fund Unit would have received if that notional investor had requested redemption (subject to the appropriate prior notice) of such Fund Unit as at each of the Averaging Dates.

"$NAV^{Initial}$" means the Net Asset Value of the Fund on the Fixing Date.

"**Fund Manager**" means manager, investment manager or investment advisor of the Investment Fund.

"**Market Disruption Event**" means that the administrator of the Investment Fund does neither calculate nor publish the NAV and/or a that notional investor could not subscribe and/or redeem the Fund Units.

"**Net Asset Value**" or "**NAV**" means the net asset value of the relevant Fund Unit as calculated and published by or on behalf of the respective Investment Fund or its Fund Manager in accordance with the relevant Investment Fund's prospectus and constitutional documents.

"**Protection Amount**" means 100 per cent. of the Specified Denomination.

"**Participation**" means 45 per cent.

"**Disrupted Day**" means any Fund Business Day on which a Market Disruption Event has occurred.

§4b
(Redemption)

Redemption. The Notes shall be redeemed on the Maturity Date (as defined in §4a) at the Fund Linked Redemption Amount. The Fund Linked Redemption Amount in respect of each Note shall be calculated by the Calculation Agent in accordance with the provisions hereof and shall be notified to the Noteholders in accordance with §12 by the Calculation Agent immediately after being determined.

§4c
(Calculation Agent Adjustment. Corrections. Disrupted Days)

(1) *Calculation Agent Adjustment*. In the event of a Replacement Event (as defined below) the Calculation Agent may, if it determines at its sole discretion that such event is material and adversely affects the Underlying or the calculation of the NAV of the Fund Unit used as the Underlying,

(a) select an alternative fund unit of an investment fund, which the Calculation Agent determines at its sole discretion to have a similar strategy and liquidity (the "**Successor Underlying**"); and/or

(b) make any adjustments to any calculation methods, values or terms in respect of the Notes it determines at its sole discretion to be necessary to account for such Replacement Event.

Upon making any such adjustment, the Calculation Agent shall give notice as soon as practicable to the Noteholders in accordance with §12, stating the adjustments and giving brief details of the Replacement Event.

"**Replacement Event**" means that any of the following event has occurred or it is likely to occur:

(i) A violation or change of any material terms of the Investment Fund's offer documents or other constitutional documents;

(ii) The main investment objective of the Investment Fund changes;

(iii) Any change in the Underlying Currency of denomination of the NAV;

(iv) The NAV, as calculated by its administrator, not being calculated or announced for any scheduled Fund Business Day within the time period when the Calculation Agent would ordinarily expect such NAV to be available;

(v) Any restriction or limitation or suspension or deferral of, redemptions of or subscription for shares in the Investment Fund (including the introduction or increase of any associated fee, cost or expense), or any mandatory redemption of shares of the Investment Fund;

(vi) A change in the tax or regulatory environment of the Issuer, the Investment Fund, or of the Fund Manager of the Investment Fund;

(vii) Any review or investigation of the activities of the Investment Fund or any of its Fund Managers, by a relevant regulator, in connection with suspected or alleged wrongdoing or breach of any rule or regulation, or other similar reason, or any disciplinary action taken by such regulator in consequence thereof;

(viii) The Issuer is the beneficial owner of 25 per cent. or more of the shares of the Investment Fund or a relevant class of the Investment Fund;

(ix) Any winding-up, liquidation of, or any termination or any loss of regulatory approval, license or registration of, the Investment Fund's Fund Manager, or any merger, de-merger, winding-up or liquidation of or affecting the Investment Fund;

(x) Any arrangement between the Issuer and the Investment Fund and/or one or more of its Fund Managers, including arrangements relating to subscriptions and redemptions, being changed or terminated; or

(xi) Any event, which prevents, hinders or materially impairs the Issuer's ability to conduct its hedging activities in relation to its exposure under this Note or adversely affects the economic basis on which the Issuer issued the Notes.

Any reference in these Terms and Conditions to the Underlying shall, to the extent appropriate, be deemed to refer to the Successor Underlying.

(2) *Corrections*. In the event that any price or level published by the administrator of the Investment Fund and which is utilised for any calculation or determination made in relation to the Notes is subsequently corrected and the correction is published by the administrator of the Investment Fund before the Maturity Date, the Calculation Agent will determine the amount that is payable or deliverable as a result of that correction, and, to the extent necessary, will adjust the terms of such transaction to account for such correction and will notify the Noteholders accordingly pursuant to §12.

(3) *Disrupted Days*. If the Calculation Agent in its sole and absolute discretion determines that any Fund Valuation Date is a Disrupted Day, then such Fund Valuation Date shall be the first succeeding Fund Business Day that the Calculation Agent determines is not a Disrupted Day, unless the Calculation Agent determines that each of the eight Fund Business Days immediately following the original date is a Disrupted Day. In that case and for the purpose of determining the Fund Linked Redemption Amount:

(a) that eight Fund Business Day shall be deemed to be the relevant Fund Valuation Date, notwithstanding the fact that such day is a Disrupted Day; and

(b) the Calculation Agent shall determine its good faith estimate of the value of the Underlying on that eight Fund Business Day.

§5
(Payments)

(1) (a) *Payment of Principal*. Payment of principal in respect of Notes shall be made, subject to applicable fiscal and other laws and regulations, in the Currency and to the Clearing System or the relevant intermediary or to its order for credit to the accounts of the relevant account holders of the Clearing System or the relevant intermediary upon presentation and surrender of the Global Note at the specified office of any Paying Agent outside the United States and upon delivery of certifications to the effect that the beneficial owners or owners of the Notes represented by the Temporary Global Note are not U.S. persons as defined by the U.S. Securities Act of 1933.

(b) *Payment of Interest*. Payment of interest on Notes shall be made, subject to applicable fiscal and other laws and regulations, in the Currency and to the Clearing System or the relevant intermediary or to its order for credit to the relevant account holders of the Clearing System or the relevant intermediary upon presentation of the Global Note at the specified office of any Paying Agent outside the United States and upon delivery of certifications to the effect that the beneficial owners or owners of the Notes represented by the Temporary Global Note are not U.S. persons as defined by the U.S. Securities Act of 1933.

(2) *Business Day*. If the date for payment of any amount in respect of any Note is not a Business Day then the Noteholder shall not be entitled to payment until the next Business Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

"**Business Day**" means a day on which (other than Saturday and Sunday) (a) banks are open for business (including dealings in foreign exchange and foreign currency deposits) in Milan and (b) all relevant parts of the Trans-European Automated Real-Time Gross Settlement Express Transfer System 2 ("**TARGET 2**") are operating to effect payments in Euro.

(3) *United States*. "**United States**" means the United States of America including the States thereof and the District of Columbia and its possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands).

(4) *Discharge.* The Issuer shall be discharged by payment to, or to the order of, the Clearing System or the relevant intermediary.

(5) *References to Principal and Interest.* References to "principal" shall be deemed to include, as applicable the Fund Linked Redemption Amount of the Notes; the Early Redemption Amount of the Notes; the Optional Redemption Amount of the Notes; and any premium and any other amounts which may be payable under or in respect of the Notes. References to "interest" shall be deemed to include, as applicable, any Additional Amounts which may be payable under §6.

§6
(Taxation)

(1) All sums payable by or on behalf of the Issuer pursuant to the Terms and Conditions of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or other government charges of any nature ("**Taxes**") imposed by or on behalf of a Relevant Jurisdiction (as defined below), or any authority thereof or therein having power to impose Taxes unless such withholding or deduction is required by law.

(2) If the Issuer is required to deduct or withhold any Taxes then the Issuer will pay such additional amounts as will result in the holders of the Notes receiving the amounts they would have received if no withholding or deduction of Taxes had been required ("**Additional Amounts**").

(3) The Issuer will not be required to pay any Additional Amounts pursuant to §6(2) in relation to the Notes which are presented for payment,

(i) by or on behalf of a Noteholder who is liable to such Taxes on the Notes as a result of having some connection with the Relevant Jurisdiction other than its mere ownership or possession of the Note or the receipt of principal or interest in respect thereof; or

(ii) where such withholding or deduction relates to (i) any European Union Directive or regulation concerning the taxation of interest income, or (ii) any international treaty or understanding relating to such taxation and to which the United Kingdom or the European Union is a party, or (iii) any provision of law implementing, or complying with, or introduced to conform with, such Directive, regulation, treaty or understanding; or

(iii) by or on behalf of a Noteholder who would have been able to avoid such withholding or deduction by presenting the relevant Note to, or arranging to receive payment through, another Paying Agent in a Member State of the EU; or

(iv) more than 30 days after the Relevant Date (as defined below) except to the extent that the Noteholder would have been entitled to receive the Additional Amounts if it had presented the Note for payment on the last day of the 30-day period.

(4) "**Relevant Jurisdiction**" means (i) Switzerland in relation to UBS AG; (ii) Switzerland, the United Kingdom and Germany in relation to UBS AG acting through its London Branch; (iii) Switzerland, Jersey and Germany in relation to UBS AG acting through its Jersey Branch; (iv) the jurisdiction of establishment of the relevant branch, Switzerland and Germany in the case of a branch other than UBS AG London Branch and UBS AG Jersey Branch; and (v) any other jurisdiction in which the Issuer is or becomes subject to tax.

"**Relevant Date**" means the date on which the payment first becomes due. If the full amount of the moneys payable on the due date has not been received by the Paying Agent on or before the due date, then "Relevant Date" means the date on which notice to the effect that the full amount of the money due has been received by the Paying Agent is published in accordance with the Terms and Conditions of the Notes.

(5) Any reference in the Terms and Conditions of the Notes to amounts payable by the Issuer pursuant to the Terms and Conditions of the Notes includes (i) any Additional Amount payable pursuant to this §6 and (ii) any sum payable pursuant to an obligation taken in addition to or in substitution for the obligation in this §6.

§7
(Prescription)

The presentation period provided in §801 paragraph 1, sentence 1 of the German Civil Code is reduced to ten years for the Notes.

§8
(Events of Default)

If any of the following events (each an "**Event of Default**") occurs, Noteholder may by written notice to the Issuer at the specified office of the Fiscal Agent declare such Note to be forthwith due and payable, whereupon the Early Redemption Amount of such Note together with accrued interest to the date of payment in accordance with the Day Count Fraction shall become immediately due and payable, unless such Event of Default shall have been remedied prior to the receipt of such notice by the Issuer:

(i) there is a default for more than 30 days in the payment of any principal or interest due in respect of the Notes; or

(ii) there is a default in the performance by the Issuer of any other obligation under the Notes which is incapable of remedy or which, being a default capable of remedy, continues for 60 days after written notice of such default has been given by any Noteholder to the Issuer; or

(iii) any order shall be made by any competent court or other authority or resolution passed by the Issuer for the dissolution or winding-up of the Issuer or for the appointment of a liquidator, receiver, administrator or manager of the Issuer or of all or a substantial part of their respective assets, or anything analogous occurs, in any jurisdiction, to the Issuer, other than in connection with a solvent reorganisation, reconstruction, amalgamation or merger; or

(iv) the Issuer shall stop payment or shall be unable to, or shall admit to creditors generally its inability to, pay its debts as they fall due, or shall be adjudicated or found bankrupt or insolvent, or shall enter into any composition or other arrangements with its creditors generally.

§9
(Agents)

(1) *Appointment*. The Fiscal Agent, the Paying Agents and the Calculation Agent (together, the "**Agents**") and their offices (which can be substituted with other offices in the same city) are:

Fiscal Agent:
UBS Limited, London
c/o UBS Deutschland AG
Bockenheimer Landstrasse 2 – 6
60306 Frankfurt am Main
Germany

Paying Agent:
UBS Limited, London
c/o UBS Deutschland AG
Bockenheimer Landstrasse 2 – 6
60306 Frankfurt am Main
Germany

Calculation Agent:
UBS AG, acting through UBS AG, London Branch
1 Finsbury Avenue
GB-London EC2M 2PP

(2) *Variation or Termination of Appointment.* The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint another Fiscal Agent or additional or other Paying Agents or another Calculation Agent provided that the Issuer shall at all times (i) maintain a Fiscal Agent, (ii) so long as the Notes are listed on a regulated market of a stock exchange, a Paying Agent (which may be the Fiscal Agent) with a specified office in such place as may be required by the rules of such stock exchange, (iii) a Calculation Agent with a specified office located in such place as required by the rules of any stock exchange or other applicable rules (if any) and (iv) if a Directive of the European Union regarding the taxation of interest income or any law implementing such Directive is introduced, ensure that it maintains a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any such Directive or law, to the extent this is possible in a Member State of the European Union. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with §12.

(3) *Agent of the Issuer*. Any Agent acts solely as the agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for any Noteholder.

(4) *Determinations Binding*. All Notes, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Terms and Conditions by the Calculation Agent shall (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent, the Paying Agents and the Noteholders and shall be made in accordance with §317 of the German Civil Code.

(5) None of the Calculation Agent or the Paying Agents shall have any responsibility in respect of any error or omission or subsequent correcting made in the calculation or publication of any amount in relation to the Notes, whether caused by negligence or otherwise (other than gross negligence or willful misconduct).

§10
(Substitution of the Issuer)

(1) The Issuer (reference to which shall always include any previous substitute debtor) may, and the Noteholders hereby irrevocably agree in advance that the Issuer may without any further prior consent of any Noteholder at any time, substitute any company (incorporated in any country in the world) controlling, controlled by or under common control with, the Issuer as the principal debtor in respect of the Notes or undertake its obligations in respect of the Notes through any of its branches (any such company or branch, the "**Substitute Debtor**"), provided that:

(a) such documents shall be executed by the Substituted Debtor and the Issuer as may be necessary to give full effect to the substitution (together, the "**Substitution Documents**") and pursuant to which the Substitute Debtor shall undertake in favour of each Noteholder to be bound by these Terms and Conditions and the provisions of the Agency Agreement as fully as if the Substitute Debtor had been named in the Notes and the Agency Agreement as the principal debtor in respect of the Notes in place of the Issuer and pursuant to which the Issuer shall irrevocably and unconditionally guarantee in favour of each Noteholder the payment of all sums payable by the Substitute Debtor as such principal debtor (such guarantee of the Issuer herein referred to as the "**Substitution Guarantee**");

(b) the Substitution Documents shall contain a warranty and representation by the Substitute Debtor and the Issuer that the Substitute Debtor and the Issuer have obtained all necessary governmental and regulatory approvals and consents for such substitution and for the giving by the Issuer of the Substitution Guarantee in respect of the obligations of the Substitute Debtor, that the Substitute Debtor has obtained all necessary governmental and regulatory approvals and consents for the performance by the Substitute Debtor of its obligations under the Substitution Documents and that all such approvals and consents are in full force and effect and that the obligations assumed by the Substitute Debtor and the Substitution Guarantee given by the Issuer are each valid and binding in accordance with their respective terms and enforceable by each Noteholder and that, in the case of the Substitute Debtor undertaking its obligations with respect to the Notes through a branch, the Notes remain the valid and binding obligations of such Substitute Debtor; and

(c) §8 shall be deemed to be amended so that it shall also be an Event of Default under the said Condition if the Substitution Guarantee shall cease to be valid or binding on or enforceable against the Issuer.

(2) Upon the Substitution Documents becoming valid and binding obligations of the Substitute Debtor and the Issuer and subject to notice having been given in accordance with sub-paragraph (4) below, the Substitute Debtor shall be deemed to be named in the Notes as the principal debtor in place of the Issuer as issuer and the Notes shall thereupon be deemed to be amended to give effect to the substitution including that the relevant jurisdiction in §6 shall be the jurisdiction of incorporation of the Substitute Debtor. The execution of the Substitution Documents together with the notice referred to in sub-paragraph (4) below shall, in the case of the substitution of any other company as principal debtor, operate to release the Issuer as issuer from all of its obligations as principal debtor in respect of the Notes.

(3) The Substitution Documents shall be deposited with and held by the Fiscal Agent for so long as any Notes remain outstanding and for so long as any claim made against the Substitute Debtor or the Issuer by any Noteholder in relation to the Notes or the Substitution Documents shall not have been finally adjudicated, settled or discharged. The Substitute Debtor and the Issuer acknowledge the right of every Noteholder to the production of the Substitution Documents for the enforcement of any of the Notes or the Substitution Documents.

(4) Not later than 15 Business Days after the execution of the Substitution Documents, the Substitute Debtor shall give notice thereof to the Noteholders and, if any Notes are listed on any stock exchange, to such stock exchange in accordance with §12 and to any other person or authority as required by applicable laws or regulations. A supplement to the Base Prospectus relating to the Notes concerning the substitution of the Issuer shall be prepared by the Issuer.

(5) For the purposes of this §10, the term 'control' means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether by contract or through the ownership, directly or indirectly, of voting shares in such company which, in the aggregate, entitle the holder thereof to elect a majority of its directors, and includes any company in like relationship to such first-mentioned company, and for this purpose 'voting shares' means shares in the capital of a company having under ordinary circumstances the right to elect the directors thereof, and 'controlling', 'controlled' and 'under common control' shall be construed accordingly.

§11
(Further Issues.
Purchases. Cancellation)

(1) *Further Issues*. The Issuer may from time to time without the consent of the Noteholders create and issue further Notes having the same terms and conditions as the Notes (except for the issue price, the Issue Date, the Interest Commencement Date and the first Interest Payment Date) and so that the same shall be consolidated and form a single Series with such Notes, and references to "Notes" shall be construed accordingly.

(2) *Purchases*. The Issuer may at any time purchase Notes at any price in the open market or otherwise. If purchases are made by tender, tenders must be available to all Noteholders alike. Such Notes may be held, reissued, resold or cancelled, all at the option of the Issuer.

(3) *Cancellation*. All Notes redeemed in full shall be cancelled forthwith and may not be reissued or resold.

§12
(Notices)

(1) *Publication*. All notices concerning the Notes shall be published on the Internet on website www.ubs.com/keyinvest. Any notice so given will be deemed to have been validly given on the fifth day following the date of such publication (or, if published more than once, on the fifth day following the first such publication).

(2) *Notification to Clearing System*. The Issuer may, instead of a publication pursuant to subparagraph (1) above, deliver the relevant notice to the Clearing System, for communication by the Clearing System to the Noteholders, provided that, so long as any Notes are listed on any stock exchange, the rules of such stock exchange permit such form of notice. Any such notice shall be deemed to have been given to the Noteholders on the fifth day after the day on which the said notice was given to the Clearing System.

§13
(Governing Law. Jurisdiction.
Process Agent)

(1) *Governing Law*. The Notes are governed by German law.

(2) *Jurisdiction*. The exclusive place of jurisdiction for all proceedings arising out of or in connection with the Notes ("**Proceedings**") shall be Frankfurt am Main. The Noteholders, however, may also pursue their claims before any other court of competent jurisdiction. The Issuer hereby submits to the jurisdiction of the courts referred to in this subparagraph.

(3) *Enforcement*. Any Noteholder may in any proceedings against the Issuer, or to which such Noteholder and the Issuer are parties, protect and enforce in his own name his rights arising under such Notes on the basis of (i) a statement issued by the Custodian with whom such Noteholder maintains a securities account in respect of the Notes (a) stating the full name and address of the Noteholder, (b) specifying the aggregate principal amount of Notes credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System containing the information pursuant to (a) and (b) and (ii) a copy of the Note in global form certified as being a true copy by a duly authorised officer of the Clearing System or a depository of the Clearing System, without the need for production in such proceedings of the actual records or the global note representing the Notes. "**Custodian**" means any bank or other financial institution of recognised standing authorised to engage in securities custody business with which the Noteholder maintains a securities account in respect of the Notes and includes the Clearing System. Each Noteholder may, without prejudice to the foregoing, protect and enforce his rights under these Notes also in any other manner permitted in the country of the proceedings.

(4) *Appointment of Process Agent*. For any Proceedings before German courts, the Issuer appoints UBS Deutschland AG, Bockenheimer Landstrasse 2 - 4, 60306 Frankfurt am Main, Germany as its authorised agent for service of process in Germany.

§14
(Language)

These Terms and Conditions are written in the English language only. The English text shall be controlling and binding.

APPENDIX C
TO THE FINAL TERMS

RISK FACTORS

The purchase of Notes may involve substantial risks and is suitable only for investors with the knowledge and experience in financial and business matters necessary to evaluate the risks and the merits of an investment in the Notes. Before making an investment decision, potential investors should consider carefully, in the light of their own financial circumstances and investment objectives, all the information set forth in the Base Prospectus. Words and expressions defined in parts of the Base Prospectus shall have the same meaning in this annexe to the Final Terms.

Potential investors in the Notes should recognise that the Notes may decline in value and should be prepared to sustain a total loss of their investment in the Notes.

I. Risk Factors relating to the Notes

1. General Risk Factors relating to the Notes

General
An investment in the Notes entails certain risks, which vary depending on the specification and type or structure of the Notes.

Each potential investor should determine whether an investment in the Notes is appropriate in its particular circumstances. An investment in the Notes requires a thorough understanding of the nature of the relevant transaction. Potential investors should be experienced with respect to an investment, in particular those relating to derivative Notes and be aware of the related risks.

An investment in the Notes is only suitable for potential investors who:

- have the requisite knowledge and experience in financial and business matters to evaluate the merits and risks of an investment in the Notes and the information contained or incorporated by reference into the Base Prospectuses or any applicable supplement thereto;

- have access to, and knowledge of, appropriate analytical tools to evaluate such merits and risks in the context of the investor's particular financial situation and to evaluate the impact the Notes will have on their overall investment portfolio;

- understand thoroughly the terms of the Notes and are familiar with the behaviour of the relevant underlyings and financial markets;

- are capable of bearing the economic risk of an investment in the Notes until the maturity of the Notes; and

- recognise that it may not be possible to dispose of the Notes for a substantial period of time, if at all before maturity.

The trading market for debt securities, such as the Notes, may be volatile and may be adversely impacted by many events.

Interest Rate Risk
The interest rate risk is one of the central risks of interest-bearing notes. The interest rate level on the money and capital markets may fluctuate on a daily basis and cause the value of the Notes to change on a daily basis. The interest rate risk is a result of the uncertainty with respect to future changes of the market interest rate level. In particular, Noteholders of Fixed Rate Notes are exposed to an interest rate risk that could result in a diminution in value if the market interest rate level increases. In general, the effects of this risk increase as the market interest rates increase.

The market interest level is strongly affected by public budget policy, the policies of the central bank the overall economic development and inflation rates, as well as by foreign interest rate levels and exchange rate expectations. However, the importance of individual factors cannot be directly quantified and may change over time.

The interest rate risk may cause price fluctuations during the term of the Notes. The longer the remaining term until maturity of the Notes and the lower their rates of interest, the greater the price fluctuations.

A materialisation of the interest rate risk may result in delay in, or inability to make, scheduled interest payments.

Credit Risk
Noteholders are subject to the risk of a partial or total failure of the Issuer to make interest and/or redemption payments that the Issuer is obliged to make under the Notes. The worse the creditworthiness of the Issuer, the higher the risk of loss (see also "Risk Factors relating to the Issuer" below).

A materialisation of the credit risk may result in partial or total failure of the Issuer to make interest and/or redemption payments.

Credit Spread Risk
A credit spread is the margin payable by an Issuer to a Noteholder as a premium for the assumed credit risk. Credit spreads are offered and sold as premiums on current risk-free interest rates or as discounts on the price.

Factors influencing the credit spread include, among other things, the creditworthiness and rating of the Issuer, probability of default, recovery rate, remaining term to maturity of the Notes and obligations under any collateralisation or guarantee and declarations as to any preferred payment or subordination. The liquidity situation, the general level of interest rates, overall economic developments, and the currency, in which the relevant obligation is denominated may also have a negative effect.

Noteholders are exposed to the risk that the credit spread of the Issuer widens resulting in a decrease in the price of the Notes.

Rating of the Notes
A rating of Notes, if any, may not adequately reflect all risks of the investment in such Notes. Equally, ratings may be suspended, downgraded or withdrawn. Such suspension, downgrading or withdrawal may have an adverse effect on the market value and trading price of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Reinvestment Risk
Noteholders may be exposed to risks connected to the reinvestment of cash resources freed from the Notes. The return the Noteholders will receive from the Notes depends not only on the price and the nominal interest rate of the Notes but also on whether or not the interest received during the term of the Notes can be reinvested at the same or a higher interest rate than the rate provided for in the Notes. The risk that the general market interest rate falls below the interest rate of the Notes during its term is generally called reinvestment risk. The extent of the reinvestment risk depends on the individual features of the Notes.

Cash Flow Risk
In general, the Notes provide a certain cash flow. The Terms and Conditions of the Notes and the Final Terms set forth under which conditions, on which dates and in which amounts interest and/or redemption amounts are/is paid. In the event that the agreed conditions do not occur, the actual cash flows may differ from those expected.

The materialisation of the cash flow risk may result in the Issuer's inability to make interest payments or in the inability to redeem the Notes, in whole or in part.

Inflation Risk
The inflation risk is the risk of future money depreciation. The real yield from an investment is reduced by inflation. The higher the rate of inflation, the lower the real yield on the Notes. If the inflation rate is equal to or higher than the nominal yield, the real yield is zero or even negative.

Purchase on Credit – Debt Financing
If a loan is used to finance the acquisition of the Notes by a Noteholder and the Notes subsequently go into default, or if the trading price diminishes significantly, the Noteholder may not only have to face a potential loss on its investment, but it will also have to repay the loan and pay interest thereon. A loan may significantly increase the risk of a loss. Potential investors should not assume that they will be able to repay the loan or pay interest thereon from the profits of a transaction. Instead, potential investors should assess their financial situation prior to an investment, as to whether they are able to pay interest on the loan, repay the loan on demand, and that they may suffer losses instead of realising gains.

Transaction Costs/Charges
When Notes are purchased or sold, several types of incidental costs (including transaction fees and commissions) are incurred in addition to the purchase or sale price of the Notes. These incidental costs may significantly reduce or eliminate any profit from holding the Notes. Credit institutions as a rule charge commissions which are either fixed minimum commissions or pro-rata commissions, depending on the order value. To the extent that additional – domestic or foreign – parties are involved in the execution of an order, including but not limited to domestic dealers or brokers in foreign markets, Noteholders may also be charged for the brokerage fees, commissions and other fees and expenses of such parties (third party costs).

In addition to such costs directly related to the purchase of securities (direct costs), potential investors must also take into account any follow-up costs (such as custody fees). Potential investors should inform themselves about any additional costs incurred in connection with the purchase, custody or sale of the Notes before investing in the Notes.

Change of Law
The Terms and Conditions of the Notes will be governed by German law (as further described in the Terms and Conditions of the Notes), as declared applicable in the Final Terms for each Tranche of Notes, in effect as at the date of the Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to German law or administrative practice after the date of the Base Prospectus.

Provision of Information
None of the Issuer, the Lead Manager or the Distributor nor any of their respective affiliates makes any representation as to any issuer of Underlying or Reference Entities. Any of such persons may have acquired, or during the term of the Notes may acquire, non-public information with respect to an issuer of the Underlying or Reference Entities, their respective affiliates or any guarantors that is or may be material in the context of Credit Linked Notes. The issue of Credit Linked Notes will not create any obligation on the part of any such persons to disclose to the Noteholders or any other party such information (whether or not confidential).

Potential Conflicts of Interest
Each of the Issuer, the Lead Manager, the Distributors or their respective affiliates may deal with and engage generally in any kind of commercial or investment banking or other business with any issuer of Underlying or Reference Entities, their respective affiliates or any guarantor or any other person or entities having obligations relating to any issuer of Underlying or Reference Entities or their respective affiliates or any guarantor in the same manner as if any Credit Linked Notes did not exist, regardless of whether any such action might have an adverse effect on an issuer of the Underlying or Reference Entities, any of their respective affiliates or any guarantor.

The Issuer may from time to time be engaged in transactions involving the underlying or Reference Entities, the Index, Index Components or related derivatives or Relevant Commodities which may affect the market price, liquidity or value of the Notes and which could be deemed to be adverse to the interests of the Noteholders.

Potential conflicts of interest may arise between the Calculation Agent and the Noteholders, including with respect to certain discretionary determinations and judgements that the Calculation Agent may make pursuant to the Terms and Conditions of the Notes that may influence the amount receivable upon redemption of the Notes.

Protection Amount
Notwithstanding the risk of an insolvency of the Issuer and the associated risk of a total loss of the investment made by the Noteholder, if and to the extent that a Protection Amount has been declared applicable in the Final Terms, the Notes will, at maturity, be redeemed for an amount no less than the specified Protection Amount. A Protection Amount may apply at a level below, at, or above the principal amount/par value of the Note. The Protection Amount, if any, will not be due if the Notes are redeemed prior to their stated maturity or upon the occurrence of an Event of Default or upon the occurrence of a Tax Call. If no Protection Amount is applicable the full amount invested by the Noteholder may be lost. Even if a Protection Amount applies, the guaranteed return may be less than the investment made by the Noteholder. The payment of the protection amount may be affected by the condition (financial or otherwise) of the Issuer.

Taxation
Potential investors should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for innovative financial instruments such as the Notes. Potential investors are advised not to rely upon the tax summary contained in the Base Prospectus and/or in the Final Terms but to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, sale and redemption of the Notes. Only these advisors are in a position to duly consider the specific situation of the potential investor. This investment consideration has to be read in connection with the section "*Taxation*" on pages 305 to 323 of the Base Prospectus and the tax sections contained in these Final Terms.

Independent Review and Advice
Each potential investor must determine, based on its own independent review and such professional advice as it deems appropriate under the circumstances, that its acquisition of the Notes is fully consistent with its (or if it is acquiring the Notes in a fiduciary capacity, the beneficiary's) financial needs, objectives and condition, complies and is fully consistent with all investment policies, guidelines and restrictions applicable to it (whether acquiring the Notes as principal or in a fiduciary capacity) and is a fit, proper and suitable investment for it (or if it is acquiring the Notes in a fiduciary capacity, for the beneficiary), notwithstanding the clear and substantial risks inherent in investing in or holding the Notes.

A potential investor may not rely on the Issuer, the Lead Manager or Distributor or any of their respective affiliates in connection with its determination as to the legality of its acquisition of the Notes or as to the other matters referred to above.

Risks associated with an Early Redemption
Unless the Final Terms specify otherwise, in the event that the Issuer would be obliged to increase the amounts payable in respect of the Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Switzerland, Jersey and/or Germany, as the case may be, or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions of the Notes.

In addition, if the Final Terms specify that the Notes are redeemable at the Issuer's option in certain other circumstances the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances Noteholders may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

No Noteholder right to demand early redemption if not specified otherwise
If the Final Terms do not provide otherwise, Noteholders have no right to demand early redemption of the Notes during the term. In case the Issuer has the right to redeem the Notes

early but provided that the Issuer does not exercise such right and it does not redeem the Notes early in accordance with the Terms and Conditions of the Notes, the realisation of any economic value in the Notes (or portion thereof) is only possible by way of their sale.

Sale of the Notes is contingent on the availability of market participants willing to purchase the Notes at a commensurate price. If no such willing purchasers are available, the value of the Notes cannot be realised. The issue of the Notes entails no obligation on the part of the Issuer vis-à-vis the Noteholders to ensure market equilibrium or to repurchase the Notes.

Because the Global Notes or the Book-entry Securities or the Intermediated Securities, as the case may be, may be held by or on behalf of, or may be registered with, Euroclear, Clearstream Frankfurt, Clearstream Luxembourg and/or SIS any other relevant clearing system or any Intermediary, as the case may be, for a particular tranche of Notes, Noteholders will have to rely on their procedures and the applicable laws for transfer, payment and communication with the Issuer. The Issuer shall not be held liable under any circumstances for any acts and omissions of any Clearing Systems or any other relevant clearing system or any Intermediary as well as for any losses which might occur to a Noteholder out of such acts and omissions.

Notes issued under the Programme may be represented by one or more Global Note(s). If the Notes are governed by Swiss law, they may be represented by one or more Global Note(s) or may be issued as Book-entry Securities or, upon entry into force of the Intermediated Securities Act, formed as Intermediated Securities.

Global Notes may be deposited with a common depositary for Euroclear and Clearstream Luxembourg or with Clearstream Frankfurt or SIS or such other clearing system or such other respective common depositary as may be relevant for the particular tranche of Notes. Noteholders will not be entitled to receive definitive Notes. Euroclear, Clearstream Frankfurt, Clearstream Luxembourg or SIS, or any other relevant clearing system, as the case may be, will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Note(s) Noteholders will be able to trade their beneficial interests only through Euroclear, Clearstream Frankfurt, Clearstream Luxembourg or SIS or any other relevant clearing system, as the case may be.

While the Notes are represented by one or more Global Note(s) the Issuer will discharge its payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream Luxembourg or for Clearstream Frankfurt or for SIS or any other relevant clearing system, if any, for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear, Clearstream Frankfurt, Clearstream Luxembourg or SIS or of any other relevant clearing system, if any, to receive payments under the relevant Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear, Clearstream Frankfurt, Clearstream Luxembourg or SIS or any other relevant clearing system, if any, to appoint appropriate proxies.

In case Notes are issued as Book-entry Securities, they will be booked in the clearing system of SIS in accordance with an agreement between SIS and the Issuer, according to which SIS maintains publicly available records of the total volume of Book-entry Securities issued for a certain Series of Notes. The Noteholder's entitlement to the Book-entry Securities is based on his/her relevant custody account statement. Noteholder will not be entitled to request to receive definitive Notes. Book-entry Securities may not be assigned or transferred except through transactions settled through SIS in accordance with its relevant rules and procedures.

Further factors influencing the value of the Notes in case of Notes linked to an underlying

The value of the Notes is determined not only by changes in market prices, changes in the price of an underlying, but also by several other factors. More than one risk factor can influence the value of the Notes at any one time, so that the effect of an individual risk factor cannot be predicted. Moreover, more than one risk factor may have a compounding effect that is also unpredictable. No definitive statement can be made with respect to the effects of combined risk factors on the value of the Notes.

These risk factors include the term of the Note and the frequency and intensity of price fluctuations (volatility) of the underlying as well as general interest and dividend levels. Consequently, the Note may lose value even if the price of an underlying remains constant.

Potential investors should thus be aware that an investment in the Notes entails a valuation risk with respect to an underlying. Investors should have experience in transactions with Notes having values based on their respective underlying. The value of an underlying is subject to fluctuations that are contingent on many factors, such as the business activities of UBS AG, macroeconomic factors and speculation. If an underlying comprises a basket of individual components, fluctuations in the value of a single component may be either offset or amplified by fluctuations in the value of the other components. Additionally, the historical performance of an underlying is not an indication of future performance. The historical price of an underlying does not indicate future performance of such underlying. Changes in the market price of an underlying affect the trading price of the Notes, and it cannot be foreseen whether the market price of an underlying will rise or fall.

If the right represented by the Note is calculated using a currency, currency unit or unit of account other than the currency of the Note, or if the value of an underlying is determined in such a currency, currency unit or unit of account other than the currency of the Note, potential investors should be aware that an investment in the Notes may entail risks based on exchange rate fluctuations, and that the risk of loss is not based solely on the performance of an underlying, but also on unfavourable developments in the value of the foreign currency, currency unit or unit of account. Such unfavourable developments can increase the Noteholder's risk of loss in the following ways:

- the value of the Notes purchased may decline correspondingly in value or

- the amount of the potential redemption amount may decline correspondingly.

Transactions to offset or limit risk

Potential investors should not rely on the ability to conclude transactions during the term of the Notes to offset or limit the relevant risks; this depends on the market situation and, in case of a Note linked to an underlying, the specific underlying conditions. It is possible that such transactions can only be concluded at an unfavourable market price, resulting in a corresponding loss for the Noteholder.

Effect on the Notes of hedging transactions by the Issuer

The Issuer may use a portion of the total proceeds from the sale of the Notes for transactions to hedge the risks of the Issuer relating to the tranche of Notes. In such case, the Issuer or a company affiliated with it may conclude transactions that correspond to the obligations of the Issuer under the Notes. As a rule, such transactions are concluded prior to or on the Issue Date, but it is also possible to conclude such transactions after issue of the Notes. On or before a valuation date, if any, the Issuer or a company affiliated with it may take the steps necessary for closing out any hedging transactions. It cannot, however, be ruled out that the price of an underlying, if any, will be influenced by such transactions in individual cases. Entering into or closing out these hedging transactions may influence the probability of occurrence or non-occurrence of determining events in the case of Notes with a value based on the occurrence of a certain event in relation to an underlying.

Binding Language

The Conditions of the Notes are written in the English language. The English text will be controlling and binding. Where a claim relating to the information contained in Final Terms is brought before a court in Germany, the plaintiff investor might, under German national legislation, have to bear the costs of translating the Final Terms into German before the legal proceedings are initiated.

A court may order that the binding English language version of the Conditions must be translated into German by an expert. Hence, an investor is confronted with the risk that a German court may interpret certain English terms in a different way than an investor would have done it.

2. General Risk Factors relating to changes in the Market Condition

Market Illiquidity

There can be no assurance as to how the Notes will trade in the secondary market or whether such market will be liquid or illiquid or that there will be a market at all. If the Notes are not traded on any securities exchange, pricing information for the Notes may be more difficult to obtain and the liquidity and market prices of the Notes may be adversely affected. The liquidity of the Notes may also be affected by restrictions on offers and sales of the securities in some jurisdictions. The more limited the secondary market is, the more difficult it may be for the Noteholders to realise value for the Notes prior to the exercise, expiration or maturity date.

Market Value of the Notes

The market value of the Notes will be affected by the creditworthiness of the Issuer and a number of additional factors and the value of the Reference Assets or the Index, including, but not limited to, the volatility of the Reference Assets or the index, the dividend rate on Underlying, or the dividend on the securities taken up in the Index, the issuer of the Underlying financial results and prospects, market interest yield rates, market liquidity and the time remaining to the maturity date.

The value of the Notes, the Reference Assets or the Index depends on a number of interrelated factors, including economic, financial and political events in a global economy or elsewhere, including factors affecting capital markets generally and the stock exchanges on which the Reference Assets, the securities taken up in the Index, or the Index, are traded. The price at which a Noteholders will be able to sell the Notes prior to maturity may be at a discount, which could be substantial, from the Issue Price or the purchase price paid by such purchaser. The historical market prices of the Reference Assets or the Index should not be taken as an indication of the Reference Assets' or the Index's future performance during the term of the Note.

Market price risk – Historic performance

The historic price of the Note should not be taken as an indicator of future performance of the Note.

It is not foreseeable whether the market price of the Note will rise or fall. If the price risk materialises, the Issuer may be unable to redeem the Notes in whole or in part.

The Issuer gives no guarantee that the spread between purchase and selling prices is within a certain range or remains constant.

3. Risk Factors Relating to the specific Product Category

Fund Linked Notes

Fund Linked Notes are debt securities which do not provide for predetermined redemption amounts and/or interest payments. Redemption amounts and/or interest payments will depend on the market value of the underlying fund(s) which might be substantially less than the Issue Price or, as the case may be, the purchase price invested by the Noteholder and may even be zero in which case the Noteholder may lose his entire investment.

Fund Linked Notes are not in any way sponsored, endorsed, sold or promoted by the respective fund sponsor of manager or the respective licensor of the fund(s) and such fund sponsor, manager or licensor makes no warranty or representation whatsoever, express or implied, either as to the results to be obtained from the use of the Fund(s) and/or the figure at which the Fund(s) stands at any particular time. Each Fund is determined, composed and calculated by its respective fund sponsor, manager or licensor, without regard to the Issuer of the Notes. None of the fund sponsors, manager or licensors is responsible for or has participated in the determination of the timing of, prices at, or quantities of the Notes to be issued or in determination or calculation of the equation by which the Notes settle into cash.

None of the fund sponsor, manager or licensors has any obligation or liability in connection with the administration, marketing or trading of the Notes. The fund sponsor, manager or licensor of the Fund(s) has no responsibility for any calculation agency adjustment made for the Fund(s).

Termination and Early Redemption at the option of the Issuer
Potential Noteholders should furthermore be aware that the Issuer is, pursuant to the Terms and Conditions, entitled to terminated and redeem the Notes in total prior to Expiration Date. In case the Issuer terminates and redeems the Notes prior to Expiration Date, the Noteholder is entitled to demand the payment of an amount in relation to this early redemption which may be lower to the amount originally invested. However, the Noteholder is not entitled to request any further payments on the Notes after the relevant termination date.

The Noteholder, therefore, bears the risk of not participating in the performance of the Underlying to the expected extent and during the expected period.

In case of a termination of the Notes by the Issuer, the Noteholder bears the risk of a reinvestment, i.e. the investor bears the risk that it will have to re-invest the amount, if any, paid by the Issuer in case of termination at market conditions, which are less favourable than those existing prevailing at the time of the acquisition of the Notes.

General Risks in respect of Structured Notes
In general, an investment in Notes by which payments of interest, if any and/or redemption is determined by reference to the performance of on or more index/indices, equity security/equity securities, bond/bonds, commodity/commodities, currency/currencies, credit events, reference interest rate/rates or other security/securities, may entail significant risks not associated with similar investments in a conventional debt security. Such risks include the risks that the Noteholder may receive no interest at all, or that the resulting interest rate may be less than that payable on a conventional debt security at the same time and/or that the Noteholder could lose all or a substantial portion of the principal of his Notes. In addition, potential investors should be aware that the market price of such Notes may be very volatile (depending on the volatility of the relevant underlying/underlyings).

Neither the current nor the historical value of the relevant underlying/underlyings should be taken as an indication of future performance of such underlying/underlyings during the term of any Note.

II. Risk Factors Relating To The Issuer

As a global financial services provider, the business activities of UBS AG are affected by the prevailing market situation. Different risk factors can impair the UBS AG's ability to implement business strategies and may have a direct, negative impact on earnings. Accordingly, UBS AG's revenues and earnings are and have been subject to fluctuations. The revenues and earnings figures from a specific period, thus, are not evidence of sustainable results. They can change from one year to the next and affect UBS AG's ability to achieve its strategic objectives.

General insolvency risk
Each Noteholder bears the general risk that the financial situation of the Issuer could deteriorate. The Notes constitute immediate, unsecured and unsubordinated obligations of the Issuer, which, in particular in case of insolvency of the Issuer, rank *pari passu* with each other and all other current and future unsecured and unsubordinated obligations of the Issuer, with the exception of those that have priority due to mandatory statutory provisions.

Effect of downgrading of the Issuer's rating
The general assessment of the Issuer's creditworthiness may affect the value of the Notes. This assessment generally depends on the ratings assigned to the Issuer or its affiliated companies by rating agencies such as Moody's, Fitch and Standard & Poor's.

Risks related to the current market crisis
UBS, like many other financial market participants, was severely affected by the financial crisis that unfolded in 2007 and worsened in 2008. The deterioration of financial markets in 2008 was extremely severe by historical standards, and UBS recorded substantial losses on legacy risk

positions. UBS has taken a series of measures to reduce its risk exposures, including the sale of up to USD 38.6 billion of illiquid and other positions to a fund owned and controlled by the Swiss National Bank (SNB) as announced in the fourth quarter. However, UBS continues to hold positions identified as risk concentrations. In addition, UBS is exposed to the general systemic and counterparty risks that are exacerbated by the ongoing market crisis and related instability of financial institutions and of the financial system as a whole.

UBS holds positions which may be adversely affected by the ongoing financial crisis and economic climate. The development of market conditions and the overall economic environment, as well as factors affecting particular assets, may lead to reductions in the market or carrying value of UBS's assets. Although UBS's exposure to the US mortgage market (including residential sub-prime, Alt-A and prime) was reduced dramatically in 2008, UBS remains exposed to that market, albeit on a reduced scale. In addition, certain of its monoline-insured positions are exposed to the US residential mortgage market as described below. The markets for most US mortgage-related securities have so far remained illiquid and it is impossible to determine whether and how long current market conditions will persist, or whether they will further deteriorate.

UBS relies on credit protection from third parties, including monoline insurers, that may not be effective. UBS's business entails exposure to counterparty credit risk, including to monoline insurers and other providers of credit protection. UBS's credit exposure to the monoline sector arises from over-the-counter (OTC) derivative contracts – mainly credit default swaps (CDSs) which are carried at fair value – in respect of mortgage related and "monolinewrapped" securities. The fair value of these CDSs – and thus UBS's exposure to the counterparties – depends on the valuation and the perceived credit risk of the instrument against which protection has been bought. Monoline insurers have been very adversely affected by their exposure to US residential mortgage-linked products, resulting in credit rating downgrades and the need to raise additional capital. UBS has recorded large credit valuation adjustments on its claims against monoline counterparties. If the financial condition of these counterparties or their perceived creditworthiness deteriorates further, UBS could record further credit valuation adjustments on the CDSs bought from monoline insurers.

UBS could also incur losses in connection with restructurings of monoline insurers, including possible losses on third party hedge protection which UBS may incur as a result of changes in the corporate structure of the insurers. UBS also trades securities issued by and derivatives related to monoline insurers, including CDSs, and the value of these securities and derivatives is subject to market volatility.

UBS holds positions in asset classes that have been or might be negatively affected by the current market crisis. In 2007 and 2008, UBS incurred substantial losses (realized and mark-to-market) on its holdings of securities related to the US residential mortgage market. The market dislocation that began in 2007 has been progressively felt in asset classes beyond US residential mortgages. In 2008, UBS recorded markdowns on other assets carried at fair value, including auction rate securities (ARS), leveraged finance commitments, commercial mortgages in the United States and non-US mortgage and asset-backed securities (ABSs). UBS has recorded and in the future could record negative fair value adjustments on these assets and on other asset classes which may be affected by the crisis in the credit markets. Such securities may also be wrapped by monoline insurers and therefore could give rise to losses if the difficulties in the monoline sector persist or increase (see the previous risk factor on monoline exposures).

UBS's inventory of ARS is likely to increase in the future as a result of its commitment to repurchase client-owned ARS. UBS is also exposed to the risk of losses and writedowns on its leveraged finance commitments. UBS holds positions related to real estate markets in countries other than the United States on which it could also suffer losses. These include exposures to non-US residential and commercial real estate and mortgages and non-US ABS programs. For example, UBS has a very substantial Swiss mortgage portfolio which is booked in Global Wealth Management & Business Banking. UBS is also exposed to risk when it provides financing against the affected asset classes such as in its prime brokerage, reverse repo and lombard lending activities.

Risk factors related to UBS's business activity

Performance in the financial services industry depends on the economic climate – negative developments can adversely affect UBS's business activities. The financial services industry prospers in conditions of economic growth, stable geopolitical conditions, capital markets that are transparent, liquid and buoyant and positive investor sentiment. An economic downturn, inflation or a severe financial crisis (as seen in 2008) can negatively affect UBS's revenues and it may be unable to immediately adjust all of its costs to the resulting deterioration in market or business conditions.

A market downturn can be precipitated by a number of factors, including geopolitical events, changes in monetary or fiscal policy, trade imbalances, natural disasters, pandemics, civil unrest, war or terrorism. Because financial markets are global and highly interconnected, even local and regional events can have widespread impact well beyond the countries in which they occur. A crisis could develop, regionally or globally, as a result of disruption in emerging markets, which are particularly susceptible to macro-economic and geopolitical developments, or as a result of the failure of a major market participant. As UBS's presence and business in emerging markets increases, it becomes more exposed to these risks. Adverse and extreme developments of this kind have affected UBS's businesses in a number of ways, and may continue to have further adverse effect on the firm's businesses:

– a general reduction in business activity and market volumes affects fees, commissions and margins from market-making and customer-driven transactions and activities;

– a market downturn is likely to reduce the volume and valuations of assets UBS manages on behalf of clients, reducing its asset- and performance-based fees;

– reduced market liquidity limits trading and arbitrage opportunities and impedes UBS's ability to manage risks, impacting both trading income and performance-based fees;

– assets UBS holds for its own account as investments or trading positions could continue to fall in value;

– impairments and defaults on credit exposures and on trading and investment positions could increase, and losses may be exacerbated by falling collateral values; and

– if individual countries impose restrictions on cross-border payments or other exchange or capital controls, UBS could suffer losses from enforced default by counterparties, be unable to access its own assets, or be impeded in – or prevented from – managing its risks.

The developments mentioned above can affect the performance of both the Group and its business units. As such, there is a risk that the carrying value of goodwill of a business unit might suffer impairments.

Due to its sizeable trading inventory, trading activities and the counterparty credit risks in many of its businesses, UBS is dependent upon its risk management and control processes to avoid or limit potential losses. Controlled risk-taking is a major part of the business of a financial services firm. Credit is an integral part of many of UBS's retail, wealth management and Investment Bank activities. This includes lending, underwriting and derivatives businesses and positions. Changes in interest rates, equity prices, foreign exchange levels and other market fluctuations can adversely affect UBS's earnings. Some losses from risk-taking activities are inevitable but, to be successful over time, UBS must balance the risks it takes with the returns it generates. It must therefore diligently identify, assess, manage and control its risks, not only in normal market conditions but also as they might develop under more extreme ("stressed") conditions, when concentrations of exposure can lead to severe losses.

As seen in 2008, UBS is not always able to prevent losses arising from extreme or sudden market events that are not anticipated by its risk measures and systems and affect sizeable inventory positions and therefore lead to serious losses. Value at Risk (VaR), a statistical measure for market risk, is derived from historical market data, and thus, by definition, could not have predicted the losses seen in the stressed conditions in 2008. Moreover, stress loss and concentration controls, and the dimensions in which UBS aggregates risk to identify potentially highly correlated exposures, proved to be inadequate. Notwithstanding the steps UBS has taken to strengthen its risk management and control framework, UBS could suffer further losses in the future if, for example:

– it does not fully identify the risks in its portfolio, in particular risk concentrations and correlated risks;

– its assessment of the risks identified, or its response to negative trends, proves to be inadequate or incorrect;

– markets move in ways that are unexpected – in terms of their speed, direction, severity or correlation – and UBS's ability to manage risks in the resultant environment is therefore restricted;

– third-parties to whom UBS has credit exposure or whose securities it holds for its own account are severely affected by events not anticipated by UBS's models and the bank accordingly suffers defaults and impairments beyond the level implied by its risk assessment; or

– collateral or other security provided by its counterparties proves inadequate to cover their obligations at the time of their default.

UBS also manages risk on behalf of its clients in its asset and wealth management businesses. Its performance in these activities could be harmed by the same factors. If clients suffer losses or the performance of their assets held with UBS is not in line with relevant benchmarks against which clients assess investment performance, UBS may suffer reduced fee income and a decline in assets under management or withdrawal of mandates.

If UBS decided to support a fund or another investment sponsored by UBS in its asset or wealth management business it might, depending on the facts and circumstances, incur charges that could increase to material levels. UBS does not currently foresee the likelihood of material losses as a result, but the possibility cannot be definitively ruled out.

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

The valuation of certain assets relies on models. For some or all of the inputs to these models there is no observable source. Where possible, UBS marks its trading book assets at their quoted market price in an active market. In the current environment, such price information is not available for certain instruments and UBS applies valuation techniques to measure such instruments. Valuation techniques use "market observable inputs" where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions for which some or all of the reference data is not observable or has limited observability, UBS uses valuation models with non-market observable inputs. There is no single market standard for valuation models in this area. Such models have inherent limitations; different assumptions and inputs would generate different results, and these differences could have a significant impact on UBS's financial results. UBS regularly reviews and updates its valuation models to incorporate all factors that market participants would consider in setting a price, including factoring in current market conditions. Judgment is an important component of this process. Changes in model inputs or in the models themselves could have a material impact on UBS's financial results.

Credit ratings and liquidity and funding management are critical to UBS's ongoing performance. Moody's Investors Service, Fitch Ratings and Standard & Poor's all lowered their long-term credit rating of UBS, on one or more times in 2008 and 2009. A further reduction in UBS's credit rating could increase its funding costs, in particular with regard to funding from wholesale unsecured sources, and reduce access to capital markets. Some of these ratings downgrades have resulted, and additional reductions in the credit ratings would result, in UBS having to make additional cash payments or post additional collateral. These events may increase UBS's need for funding to ensure that it will always have sufficient liquidity to meet liabilities when due, while reducing its ability to obtain such funding. UBS's credit ratings also have an impact on the performance of UBS's businesses. Along with UBS's capital strength and reputation, both of which are described in greater detail in the risk factors below, UBS's credit ratings contribute to maintaining client and counterparty confidence in UBS.
Liquidity is essential to UBS's businesses. A substantial part of UBS's liquidity and funding requirements are met using short-term unsecured funding sources, including wholesale and retail deposits and the regular issuance of money market securities. The volume of these funding sources has generally been stable, but may change in the future due, among other things, to general market disruptions. Any such change could occur quickly and without notice. If such a change were to occur, UBS could be forced to liquidate assets, in particular from its trading portfolio, to meet maturing liabilities or deposit withdrawals. Given the depressed prices of many asset classes in current market conditions, UBS might be forced to sell assets at discounts that could adversely affect its profitability and its business franchises.

In 2008, UBS's credit spreads increased substantially, in line with the general trend for the financial services industry. If these trends continue, or if UBS maintains substantially elevated levels of liquidity for an extended period of time, the combination of an increase in UBS's borrowing costs and lower margins could have an adverse impact on the firm's profitability.

UBS's capital strength is important to support its client franchise. UBS's capital position measured by the BIS capital ratios is and has traditionally been strong, both in absolute terms and relative to its competitors. Capital ratios are determined by (1) risk-weighted assets (RWAs) (balance sheet, off-balance sheet and other market and operational risk positions, measured and risk-weighted according to regulatory criteria) and (2) eligible capital. Both RWAs and eligible capital are subject to change. Eligible capital, for example, could experience a reduction in case of financial losses, acquired goodwill or as a result of foreign exchange movements. RWAs, on the other hand, will be driven by UBS's business activities and by changes in the risk profile of these assets. They could furthermore be subject to a change in regulatory requirements or the interpretation thereof. For instance, substantial market volatility, a widening of credit spreads (the major driver of UBS's VaR), a change in regulatory treatment of certain positions (including, but not limited to, the definitions of assets allocated to the trading or the banking books), stronger foreign currencies, increased counter-party risk or a further deterioration in the economic environment could result in a rise in RWAs or a change in capital requirements and thereby potentially reduce UBS's capital ratios.

Operational risks may affect UBS's business. All UBS's businesses are dependent on the bank's ability to process a large number of complex transactions across multiple and diverse markets in different currencies, in addition to being subject to the many different legal and regulatory regimes of these countries. UBS's operational risk management and control systems and processes are designed to ensure that the risks associated with the bank's activities, including those arising from process error, failed execution, unauthorized trading, fraud, systems failure and failure of security and physical protection, are appropriately controlled. If these internal controls fail or prove ineffective in identifying and remedying such risks, UBS could suffer operational failures that might result in losses.

Legal claims and regulatory risks and restrictions arise in the conduct of UBS's business. In the ordinary course of its business, UBS is subject to regulatory oversight and liability risk. It is involved in a variety of other claims, disputes and legal proceedings and government investigations in jurisdictions where UBS is active, including the United States and Switzerland. These types of proceedings expose UBS to substantial monetary damages and legal defense costs, injunctive relief, criminal and civil penalties and the potential for regulatory restrictions on UBS's businesses. The outcome of these matters cannot be predicted and they could adversely affect UBS's future business. Currently, UBS is responding to a number of government inquiries and investigations, and is involved in a number of litigations and disputes, related to the sub-prime crisis, sub-prime securities, and structured transactions involving sub-prime securities. These matters concern, among other things, UBS's valuations, disclosures, writedowns, underwriting and contractual obligations.

UBS has been in active dialogue with its regulators concerning remedial actions that it is taking to address deficiencies in its risk management and control, funding and certain other processes and systems. UBS will for some period be subject to increased scrutiny by the Swiss Financial Market Supervisory Authority and its other major regulators, and accordingly will be subject to regulatory measures that might affect the implementation of its strategic plans.

UBS recently announced that it had entered into a Deferred Prosecution Agreement (DPA) with the US Department of Justice and a Consent Order with the US Securities and Exchange Commission in connection with its cross-border private banking services provided to US private clients. The US Internal Revenue Service has issued a civil summons seeking information concerning UBS's cross-border business, including records located in Switzerland, and recently filed a petition for enforcement of this summons. It is possible that this and other governmental actions will lead to changes which could affect cross-border financial services and the application of Swiss financial privacy law, and this could adversely affect the future profitability of UBS's cross-border banking businesses. Following disclosure of the US crossborder matter, moreover, it is possible that tax or regulatory authorities in various jurisdictions will focus on the cross-border wealth management services provided by UBS and other financial institutions. It is premature to speculate as to the scope or effect of any such reviews.

UBS might be unable to identify or capture revenue or competitive opportunities, or retain and attract qualified employees. The financial services industry is characterized by intense competition, continuous innovation, detailed (and sometimes fragmented) regulation and ongoing consolidation. UBS faces competition at the level of local markets and individual business lines, and from global financial institutions comparable to UBS in their size and breadth. Barriers to entry in individual markets are being eroded by new technology. UBS expects these trends to continue and competition to increase in the future.

The competitive strength and market position of UBS could be eroded if the firm is unable to identify market trends and developments, does not respond to them by devising and implementing adequate business strategies or is unable to attract or retain the qualified people needed to carry them out. In particular, the efforts required to address the current market crisis and related challenges might diminish the attention UBS devotes to managing other risks including those arising from its competitive environment. The changes recently introduced with regard to UBS's balance sheet management, funding framework and risk management and control, as well as the repositioning of the fixed income, currencies and commodities business, are likely to reduce the revenue contribution of certain activities that require substantial funding or focus on proprietary trading.

Following the losses incurred in 2008, UBS very significantly reduced the variable compensation granted to its employees for that year. It is possible that, as a result of this reduction or other factors, key employees will be attracted by competitors and decide to leave UBS, or that UBS may be less successful in attracting qualified employees.

UBS's reputation is key to its business. UBS's reputation is critical in maintaining its relationships with clients, investors, regulators and the general public. The reputation of UBS can be damaged, for instance, by misconduct by its employees, by activities of business partners over which UBS has limited or no control, by severe or prolonged financial losses or by uncertainty about its financial soundness and its reliability. This could result in client attrition in different parts of UBS's business and could negatively impact its financial performance. Maintaining the firm's reputation and addressing adverse reputational developments are therefore key factors in UBS's risk management efforts.

UBS's global presence exposes the bank to other risks, including currency fluctuation. UBS operates in more than 50 countries, earns income and holds assets and liabilities in many different currencies and is subject to many different legal, tax and regulatory regimes.

UBS's ability to execute its global strategy depends on obtaining and maintaining local regulatory approvals. This includes the approval of acquisitions or other transactions and the ability to obtain and maintain the necessary licenses to operate in a local market. Changes in local tax laws or regulations and their enforcement may affect the ability or the willingness of UBS's clients to do business with the bank, or the viability of the bank's strategies and business model. In its financial accounts, UBS accrues taxes but the final effect of taxes on earnings is only determined after completion of tax audits (which generally takes a number of years) or the expiration of statutes of limitations. In addition, changes in tax laws, judicial interpretation of tax laws or policies and practices of tax authorities could have a material impact on taxes paid by UBS and cause the amount of taxes ultimately paid by UBS to differ from the amount accrued.

Because UBS prepares its accounts in Swiss francs, while a substantial part of its assets, liabilities, assets under management, revenues and expenses are denominated in other currencies, changes in foreign exchange rates, particularly between the Swiss franc and the US dollar (US dollar income represents the major part of UBS's non-Swiss franc income) have an effect on its reported income and shareholders' equity.

Potential conflicts of interest

The Issuer and affiliated companies may participate in transactions related to the Notes in some way, for their own account or for account of a client. Such transactions may not serve to benefit the Noteholders and may have a positive or negative effect on the value of an underlying and consequently on the value of the Notes. Furthermore, companies affiliated with the Issuer may become counterparties in hedging transactions relating to obligations of the Issuer stemming from the Notes. As a result, conflicts of interest can arise between companies affiliated with the Issuer, as well as between these companies and investors, in relation to obligations regarding the calculation of the price of the Notes and other associated determinations. In addition, the Issuer and its affiliates may act in other capacities with regard to the Notes, such as calculation agent, paying agent and administrative agent and/or index sponsor.

Furthermore, the Issuer and its affiliates may issue other derivative instruments relating to the respective Underlying; introduction of such competing products may affect the value of the Notes. The Issuer and its affiliated companies may receive non-public information relating to an underlying, and neither the Issuer nor any of its affiliates undertakes to make this information available to Noteholders. In addition, one or more of the Issuer’s affiliated companies may publish research reports on an underlying. Such activities could present conflicts of interest and may affect the value of the Notes.

Within the context of the offering and sale of the Notes, the Issuer or any of its affiliates may directly or indirectly pay fees in varying amounts to third parties, such as distributors or investment advisors, or receive payment of fees in varying amounts, including those levied in association with the distribution of the Notes, from third parties. Potential investors should be aware that the Issuer may retain fees in part or in full. The Issuer, upon request, will provide information on the amount of these fees.

Particularly, to be noted that potential conflict of interests may arise - in respect of the Notes - on: (i) the Lead Manager and the Distributors, due to the fact they perceive from the Issuer, respectively, Management Fees and Selling Fees (for further details on the fees above mentioned see under clause 6 “Issue Price” of the Final Terms; (ii) the Lead Manager and the Distributors due to the fact they belong to the same Montepaschi Banking Group, whose parent company is Banca Monte di Paschi di Siena S.p.A.; (iii) the Lead Manager and the Issuer due to the fact that MPS Capital Services Banca per le Imprese S.p.A acts also as hedging counterparty of the Issuer in connection with the issue of the Notes; and (iv) the Calculation Agent, due to the fact that it is the same entity as the Issuer. Furthermore MPS Capital Services Banca per le Imprese S.p.A acts also as sole dealer (negoziatore unico) on the systematic internaliser named De@lDone Trading (DDT) on which application shall be made for the Notes to be admitted to trading. To be also noted that Banca Monte dei Paschi di Siena S.p.A., holding company of the same banking group of the Lead Manager and the Distributors (Montepaschi Banking Group) indirectly retains an equity interest equal to 33% of the share capital in PRIMA SGR S.p.A. - which manages the Investment Fund.

APPENDIX D
TO THE FINAL TERMS

Examples of Performance

The following provides examples of possible product yields

I - Negative scenario for the Investor

The less favourable situation for the Investor occurs if the Parameter has recorded a negative performance. In this case the contribution given by the Parameter will be equal to the Fund Return, multiplied by the Participation as can be seen from the table below, floored at zero.

Parameter's Performance

	Initial Value	Final Value*	Performance
Fund Return	14.25	12.825	-10.00%

Payoff's Profile

Payment Date	Fixed Rate (A)	Max [0; Participation x Fund Return] (B)	Gross Flows	Net Flows
31/08/2012	3.65%		3.65%	3.19%
31/08/2016		0.0%	100%	100.00%
Gross Annual Return			0.740%	
Net Annual Return				0.646%

The gross annual effective yield to maturity is equal to 0.740% and net annual effective yield is equal to 0.646%.

Note: For the calculation of net yields, it has been suggested the application of the substitute tax to the extent of 12.5% on the date of the Final Terms.

* Please note that the final value is the arithmetic average of the Fund returns calculated using 6 monthly observation dates.

II - Intermediate scenario for the Investor

An intermediate situation occurs for the Investor if the Parameter has shown a moderately positive performance. In this case the contribution given by the Parameter will be equal to the Fund Return, multiplied by the Participation as can be seen from the table below, floored at zero.

Parameter's Performance

	Initial Value	Final Value*	Performance
Fund Return	14.25	19.665	38.00%

Payoff's Profile

Payment Date	Fixed Rate (A)	Max [0; Participation x Fund Return] (B)	Gross Flows	Net Flows
31/08/2016	3.65%		3.65%	3.19%
31/08/2016		17.10%	117.10%	114.96%
Gross Annual Return			3.944%	
Net Annual Return				3.471%

The gross annual effective yield to maturity is equal to 3.944% and net annual effective yield is equal to 3.471%.

Note: For the calculation of net yields, it has been suggested the application of the substitute tax to the extent of 12.5% on the date of the Final Terms.

* Please note that the final value is the arithmetic average of the Fund returns calculated using 6 monthly observation dates.

III - Positive scenario for the Investor

A favourable situation for the Investor occurs if the Parameter has shown a very good performance. In this case the contribution given by the Parameter will be equal to the Fund Return, multiplied by the Participation as can be seen from the table below, floored at zero.

Parameter's Performance

	Initial Value	Final Value*	Performance
Fund Return	14.25	21.375	50.00%

Payoff's Profile

Payment Date	Fixed Rate (A)	Max [0; Participation x Fund Return] (B)	Gross Flows	Net Flows
31/08/2016	3.65%		3.65%	3.19%
31/08/2016		22.50%	122.50%	119.69%
Gross Annual Return			4.877%	
Net Annual Return				4.302%

The gross annual effective yield to maturity is equal to 4.877% and net annual effective yield is equal to 4.302%.

Note: For the calculation of net yields, it has been suggested the application of the substitute tax to the extent of 12.5% on the date of the Final Terms.

* Please note that the final value is the arithmetic average of the Fund returns calculated using 6 monthly observation dates.

Please note that the assumptions and parameters used are purely hypothetical.

COMPARISON WITH NON STRUCTURED SECURITIES OR RISK FREE OF SIMILAR LENGTH

As a mere example, a comparison is made between the actual annual gross and net return specified in the negative scenario described above and the actual annual gross and net return of a BTP with similar maturity.

	Actual gross annual return	Actual net annual return
Scenario 1 – Negative scenario for the Investor	0.740%	0.646%
Scenario 2 – Intermediate scenario for the Investor	3.944%	3.471%
Scenario 3 – Positive scenario for the Investor	4.877%	4.302%
BTP 3,75% 01/08/16 (IT0004019581)*	3.98%	3.51%

*Data as of 22/06/2011 (source "il Sole24Ore")