UBS AG
Form 424B2
November 01, 2018

PROSPECTUS SUPPLEMENT
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Registration Statement No. 333-225551
Dated November 1, 2018
(To Prospectus dated October 31, 2018

and Product Supplement dated October 31, 2018)

UBS AG Airbag Return Optimization Securities

Linked to the common stock or American depositary receipts of a specific company or the shares of a specific exchange traded fund

Investment Description
UBS AG Airbag Return Optimization Securities (the "Securities") are unsubordinated, unsecured debt obligations issued by UBS AG ("UBS" or the "issuer") linked to the common stock or American depositary receipts of a specific company or the shares of a specific exchange traded fund (the "underlying asset"). The applicable terms of an offering of the Securities will be specified in the relevant final terms supplement you will receive from your financial advisor. The general terms are as follows:

¨ Unless otherwise specified in the relevant final terms supplement, the principal amount of each Security will equal $1,000 per Security.

¨ At maturity, UBS will pay you a cash payment, for each Security you hold, that will be based on (i) the percentage change in the level of the underlying asset from the trade date to the final valuation date (the "underlying return") and (ii) whether the percentage decline of the underlying asset from the initial level to the final level is greater than the threshold percentage, calculated as follows:

¨ If the underlying return is positive:

$1,000 + ($1,000 × the lesser of (a) Underlying Return × Multiplier and (b) Maximum Gain).

¨ If the underlying return is zero or negative and the percentage decline from the initial level to the final level is equal to or less than the threshold percentage:

Principal Amount of $1,000.

¨ If the underlying return is negative and the percentage decline from the initial level to the final level is greater than the threshold percentage:

$1,000 + [$1,000 x (Underlying Return + Threshold Percentage) x Downside Multiplier].

Investing in the Securities involves significant risks. The Securities are exposed at a proportionately higher percentage relative to any percentage decline in the level of the underlying asset in excess of the threshold percentage from the trade date to the final valuation date. Specifically, if the percentage decline of the underlying asset from the initial level to the final level is greater than the threshold percentage, you will lose a percentage of your principal amount equal to the percentage decline in excess of the threshold percentage multiplied by the downside multiplier and, in extreme situations, you could lose all of your initial investment. The Securities do not pay interest. The stated payout from the issuer applies only if you hold the Securities to maturity. Any payment on the Securities, including any repayment of principal, is subject to the creditworthiness of UBS. If UBS were to default on its payment obligations, you may not receive any amounts owed to you under the Securities and you could lose your entire investment.

Features
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- **Enhanced Participation in the Positive Performance of the Underlying Asset, Subject to a Maximum Gain —** At maturity, the Securities provide enhanced participation in any positive underlying return at the multiplier up to the maximum gain.
- **Potential for Full Downside Market Exposure with Contingent Repayment of Principal at Maturity—** If the underlying return is negative and the percentage decline of the underlying asset from the initial level to the final level is equal to or less than the threshold percentage, UBS will pay you a cash payment per Security equal to the principal amount at maturity. If, however, the underlying return is negative and the percentage decline of the underlying asset from the initial level to the final level is greater than the threshold percentage, UBS will pay you a cash payment per Security that is less than the principal amount, if anything, resulting in a percentage loss on your initial investment equal to the percentage that the final level is less than the initial level in excess of the threshold percentage multiplied by the downside multiplier and, in extreme situations, you could lose all of your initial investment. The contingent repayment of principal only applies if you hold the Securities to maturity. Any payment on the Securities, including any repayment of principal, is subject to the creditworthiness of UBS.

Notice to investors: the Securities are significantly riskier than conventional debt instruments. UBS is not necessarily obligated to repay the principal amount of the Securities at maturity, and the Securities may have the full downside market risk of the underlying asset. This market risk is in addition to the credit risk inherent in purchasing a debt obligation of UBS. You should not purchase the Securities if you do not understand or are not comfortable with the significant risks involved in investing in the Securities.

You should carefully consider the risks described under "Key Risks" beginning on page 3 and under "Risk Factors" beginning on page PS-9 of the accompanying product supplement before purchasing any Securities. Events relating to any of those risks, or other risks and uncertainties, could adversely affect the market value of, and the return on, your Securities. You may lose some or all of your initial investment in the Securities. The Securities will not be listed or displayed on any securities exchange or any electronic communications network.

Security Offerings

This prospectus supplement describes the general terms of Securities that we may offer. The applicable terms of any offering of Securities will be specified in the relevant final terms supplement you receive from your financial advisor.

The estimated initial value of the Securities as of the trade date will be specified in the relevant final terms supplement for each offering of the Securities. The estimated initial value of the Securities will be determined on the date of the relevant final terms supplement by reference to UBS' internal pricing models, inclusive of the internal funding rate. For more information about secondary market offers and the estimated initial value of the Securities, see "Key Risks — Fair value considerations" and "Key Risks — Limited or no secondary market and secondary market price considerations" on pages 4 and 5 of this prospectus supplement.

See "Additional Information about UBS and the Securities" on page ii. The Securities will have the terms set forth in the accompanying product supplement relating to the Securities, the accompanying prospectus, this prospectus supplement and the relevant final terms supplement for your Securities.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these Securities or passed upon the adequacy or accuracy of this prospectus supplement, the accompanying product supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The Securities are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

UBS Financial Services Inc. UBS Investment Bank

Additional Information about UBS and the Securities
UBS has filed a registration statement (including a prospectus, as supplemented by a product supplement for the Securities) with the Securities and Exchange Commission (the "SEC"), for each offering of the Securities to which this prospectus supplement will relate. Before you invest, you should read these documents and any other documents relating to the Securities that UBS has filed with the SEC for more complete information about UBS and the potential offerings. You may obtain these documents for free by visiting EDGAR on the SEC website at www.sec.gov. Our Central Index Key, or CIK, on the SEC website is 0001114446.

You may access these documents on the SEC web site at www.sec.gov as follows:

- Market-Linked Securities product supplement dated October 31, 2018:
  http://www.sec.gov/Archives/edgar/data/1114446/000091412118002085/ub47016353-424b2.htm
- Prospectus dated October 31, 2018:
  http://www.sec.gov/Archives/edgar/data/1114446/000119312518314003/d612032d424b3.htm

This prospectus supplement describes the terms that will apply generally to the Securities. On the trade date, UBS will prepare a final terms supplement that, in addition to the identity of the underlying asset and any changes to the general terms specified herein, will also include the specific pricing terms, including the estimated initial value, for that issuance. Attached as Annex A to this prospectus supplement is a form of the final terms supplement which you will receive after the trade is executed on the trade date, which will specify the final economic terms of the Securities. You will also receive a preliminary terms supplement in much the same form, except providing indicative ranges for the estimated initial value of the Securities and, depending on your selection of terms, for the threshold percentage (and correlated downside multiplier) and maximum gain. Any final terms supplement should be read in connection with this prospectus supplement, the accompanying product supplement and the accompanying prospectus.

References to "UBS", "we", "our" and "us" refer only to UBS AG and not to its consolidated subsidiaries. In this document, "Airbag Return Optimization Securities" or the "Securities" refer to the Securities that will be offered hereby. Also, references to the "accompanying product supplement" mean the UBS product supplement, dated October 31, 2018, and references to "accompanying prospectus" mean the UBS prospectus, titled "Debt Securities and Warrants," dated October 31, 2018.

UBS reserves the right to change the terms of, or reject any offer to purchase, the Securities prior to their issuance. In the event of any changes to the terms of the Securities, UBS will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes in which case UBS may reject your offer to purchase.

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Investor Suitability

The Securities may be suitable for you if:

- You fully understand the risks inherent in an investment in the Securities, including the risk of loss of all of your initial investment.
- You can tolerate a loss of some or all of your initial investment and are willing to make an investment that may have the full downside market risk of the underlying asset.
- You believe that the level of the underlying asset will appreciate over the term of the Securities and that the percentage of appreciation is unlikely to exceed the maximum gain.
- You understand and accept that your potential return is limited to the maximum gain and you would be willing to invest in the Securities based on the maximum gain, buffer percentage and multiplier that will be specified in the relevant preliminary terms supplement even if any such term with a range was set to the least favorable end of that range.
- You can tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level of the underlying asset.
- You do not seek current income from your investment and are willing to forgo any dividends paid on the underlying asset.
- You understand and accept the market risk associated with the Securities and will understand and be willing to accept the risks associated with the underlying asset that will be specified in the relevant preliminary terms supplement.
- You are willing to hold the Securities to maturity and accept that there may be little or no secondary market for the Securities.
- You are willing to assume the credit risk of UBS for all payments under the Securities, and understand that if UBS defaults on its obligations you may not receive any amounts due to you including any repayment of principal.
- You understand that the estimated initial value of the Securities determined by our internal pricing models will be lower than the issue price and that should UBS Securities LLC or any affiliate make secondary markets for the Securities, the price (not including their customary bid-ask spreads) will temporarily exceed the internal pricing model price.

The Securities may not be suitable for you if:

- You do not fully understand the risks inherent in an investment in the Securities, including the risk of loss of all of your initial investment.
- You require an investment designed to provide a full return of principal at maturity.
- You cannot tolerate a loss of some or all of your initial investment or you are not willing to make an investment that may have the full downside market risk of the underlying asset.
- You believe that the level of the underlying asset will decline during the term of the Securities and that the percentage decline from the initial level to the final level is likely to be greater than the threshold percentage or you believe that the level of the underlying asset will appreciate over the term of the Securities by more than the maximum gain.
- You seek an investment that has unlimited return potential without a cap on appreciation or you would be unwilling to invest in the Securities based on the maximum gain, conversion level or multiplier that will be specified in the relevant preliminary terms supplement or if any such term with a range was set to the least favorable end of that range.
- You cannot tolerate fluctuations in the price of the Securities prior to maturity that may be similar to or exceed the downside fluctuations in the level of the underlying asset.
- You seek current income from your investment or are unwilling to forgo any dividends paid on the underlying asset.
- You do not understand or do not accept the market risk associated with the Securities, or do not understand or would be unwilling to accept the risks associated with the underlying asset that will be specified in the relevant preliminary terms supplement.
- You are unable or unwilling to hold the Securities to maturity or you seek an investment for which there will be an active secondary market.

- You are not willing to assume the credit risk of UBS for all payments under the Securities including any repayment of principal.

The suitability considerations identified above are not exhaustive. Whether or not the Securities are a suitable investment for you will depend on your individual circumstances and you should reach an investment decision only after you and your investment, legal, tax, accounting and other advisors have carefully considered the suitability of an investment in the Securities in light of your particular circumstances. You should review "Information about the Underlying Asset" in the relevant preliminary terms supplement for more information on the underlying asset. You should also review carefully the "Key Risks" section of this prospectus supplement and the "Risk Factors" section in the accompanying product supplement, as well as the "Key Risks" section of the relevant final terms supplement for risks related to an investment in the Securities.

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Summary Terms for Each Offering of the Securities

Issuer	UBS AG
Booking branch	London Branch
Principal Amount	Unless otherwise specified in the relevant final terms supplement, $1,000 per Security.
Term	As specified in the relevant final terms supplement.
Underlying Asset	The common stock or American depositary receipts ("ADRs") of a specific company or the share of a specific exchange traded fund ("ETF"), as specified in the relevant final terms supplement.
Trade Date	As specified in the relevant final terms supplement, or if that day is not a trading day, the next following trading day.
Settlement Date	Unless otherwise specified in the relevant final terms supplement, 2 business days following the trade date.
Final Valuation Date	As specified in the relevant final terms supplement, or if that day is not a trading day, the next following trading day. The final valuation date may be subject to postponement in the event of a market disruption event as described under "General Terms of the Securities — Market Disruption Events" and "— Final Valuation Date" in the accompanying product supplement.
Maturity Date	Unless otherwise specified in the relevant final terms supplement, 3 business days following the final valuation date. The maturity date may be subject to postponement in the event of a market disruption event as described under "General Terms of the Securities — Market Disruption Events" and "—Maturity Date" in the accompanying product supplement.
Payment at Maturity (per Security)	**If the underlying return is positive**, UBS will pay you an amount in cash equal to: $1,000 + ($1,000 × the lesser of (a) Underlying Return × Multiplier and (b) Maximum Gain) **If the underlying return is zero or negative and the percentage decline from the initial level to the final level is equal to or less than the threshold percentage**, UBS will pay you an amount in cash equal to: Principal Amount of $1,000 **If the underlying return is negative and the percentage decline from the initial level to the final level is greater than the threshold percentage,** UBS will pay you an amount in cash equal to: $1,000 + [$1,000 × (Underlying Return + Threshold Percentage) × Downside Multiplier]. ***In such a case, you will lose a percentage of your principal amount equal to the percentage decline in excess of the threshold percentage multiplied by the downside multiplier and, in extreme situations, you could lose all of your initial investment.***
Underlying Return	The quotient, expressed as a percentage, of the following formula: $\frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}}$
Initial Level(1)	The closing level of the underlying asset on the trade date.
Final Level(1)	The closing level of the underlying asset on the final valuation date.
Multiplier	As specified in the relevant final terms supplement.
Maximum Gain	As specified in the relevant final terms supplement.
Threshold Percentage	As specified in the relevant final terms supplement.

Downside Multiplier	As specified in the relevant final terms supplement. The downside multiplier will be equal to: $\frac{1}{(1 - \text{Threshold Percentage})}$
CUSIP / ISIN / Valoren	Each, as specified in the relevant final terms supplement.

(1) As determined by the calculation agent and as may be adjusted in the case of antidilution and reorganization events as described under "General Terms of the Securities — Antidilution Adjustments for Securities Linked to an Underlying Equity or Equity Basket Asset" and "— Reorganization Events for Securities Linked to an Underlying Equity or Equity Basket Asset" in the accompanying product supplement.

Investment Timeline

Trade Date	The initial level is observed and the final terms of the Securities are set.
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Maturity Date	The final level is observed on the final valuation date and the underlying return is calculated. **If the underlying return is positive**, UBS will pay you an amount in cash equal to: $1,000 + ($1,000 × the lesser of (a) Underlying Return × Multiplier and (b) Maximum Gain) **If the underlying return is zero or negative and the percentage decline from the initial level to the final level is equal to or less than the threshold percentage**, UBS will pay you an amount in cash equal to: Principal Amount of $1,000 If the underlying return is negative and the percentage decline from the initial level to the final level is greater than the threshold percentage, UBS will pay you an amount in cash equal to: $1,000 + [$1,000 × (Underlying Return + Threshold Percentage) × Downside Multiplier]. ***In such a case, you will lose a percentage of your principal amount equal to the percentage decline in excess of the threshold percentage multiplied by the downside multiplier and, in extreme situations, you could lose all of your initial investment.***

Investing in the Notes involves significant risks. You may lose some or all of your initial investment. Any payment on the Notes, including any repayment of principal, is subject to the creditworthiness of UBS. If UBS were to default on its payment obligations, you may not receive any amounts owed to you under the Notes and you could lose all of your initial investment.

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Key Risks

An investment in the Securities involves significant risks. Investing in the Securities is not equivalent to investing in the underlying asset. Some of the key risks that apply to the Securities are summarized here, but we urge you to read the “Key Risks” section in the applicable preliminary terms supplement and the more detailed explanation of risks relating to the Securities generally in the “Risk Factors” section of the accompanying product supplement. We also urge you to consult your investment, legal, tax, accounting and other advisors before you invest in the Securities.

- **Risk of loss at maturity** — The Securities differ from ordinary debt securities in that UBS will not necessarily repay the principal amount of the Securities. If the percentage decline of the underlying asset from the initial level to the final level is greater than the threshold percentage, you will lose a percentage of your principal amount equal to the percentage that the final level is less than the initial level in excess of the threshold percentage multiplied by the downside multiplier and, in extreme situations, you could lose all of your initial investment. For example, if the threshold percentage is 20% (resulting in a downside multiplier of 1.25) and the percentage decline in the level of the underlying asset exceeds the threshold percentage, you will lose 1.25% of your principal amount at maturity for each 1% decline in excess of the threshold percentage.
- **The stated payout from the issuer applies only at maturity** — You should be willing to hold your Securities to maturity. If you are able to sell your Securities prior to maturity in the secondary market, you may have to sell them at a loss relative to your initial investment even if the then-current percentage decline of the underlying asset from the initial level is equal to or less than the threshold percentage. The stated payout by the issuer is available only if you hold your Securities to maturity.
- **The multiplier applies only at maturity** — You should be willing to hold your Securities to maturity. If you are able to sell your Securities prior to maturity in the secondary market, the price you receive will likely not reflect the full economic value of the multiplier, and the percentage return you realize may be less than the then-current underlying return times the multiplier even if such return is positive and does not exceed the maximum gain. You can receive the full benefit of the multiplier, subject to the maximum gain, only if you hold your Securities to maturity.
- **Your potential return on the Securities is limited to the maximum gain** — The return potential of the Securities is limited to the maximum gain. Therefore, you will not benefit from any positive underlying return in excess of an amount that, when multiplied by the multiplier, exceeds the maximum gain and your return on the Securities may be less than a direct investment in the underlying asset.
- **No interest payments** — UBS will not pay any interest with respect to the Securities.
- **The probability that the percentage decline of the underlying asset from the initial level to the final level is greater than the threshold percentage will depend on the volatility of the underlying asset** — "Volatility" refers to the frequency and magnitude of changes in the level of the underlying asset. All things being equal, the greater the expected volatility of the underlying asset as of the trade date, the greater the expectation is as of that date that the percentage decline of the underlying asset from the initial level to the final level is greater than the threshold percentage and, as a consequence, indicates an increased risk of loss. Also, a relatively higher threshold percentage does not necessarily indicate a relatively low risk of loss because the expected volatility of the underlying asset could be high. You should be willing to accept the full downside market risk of the underlying asset and the potential to lose some or all of your initial investment.
- **Credit risk of UBS** — The Securities are unsubordinated, unsecured debt obligations of the issuer, UBS and are not, either directly or indirectly, an obligation of any third party. Any payment to be made on the Securities, including any repayment of principal at maturity, depends on the ability of UBS to satisfy its obligations as they come due. As a result, the actual and perceived creditworthiness of UBS may affect the market value of the Securities and, in the event UBS were to default on its obligations, you may not receive any amounts owed to you under the terms of the Securities and you could lose your entire initial investment.
- **Market risk** — The price of the underlying asset can rise or fall sharply due to factors specific to that underlying asset and (i) in the case of common stock or ADRs, its issuer (the “underlying asset issuer”) or (ii) in the case of an ETF, the securities, futures contracts or physical commodities constituting the assets of that underlying asset (the “underlying constituents”). These factors include price volatility, earnings, financial conditions, corporate, industry and regulatory developments, management changes and decisions and other events, as well as general market factors, such as

general market volatility and levels, interest rates and economic and political conditions. You, as an investor in the Securities, should make your own investigation into the underlying asset issuer and the underlying asset for your Securities. For additional information regarding the underlying asset issuer, please see "Information about the Underlying Asset" in the relevant preliminary terms supplement and the underlying asset issuer's SEC filings referred to in that section. **We urge you to review financial and other information filed periodically by the underlying asset issuer with the SEC.**

¨ **Fair value considerations.**

o **The issue price you pay for the Securities will exceed their estimated initial value** — The issue price you pay for the Securities will exceed their estimated initial value as of the trade date due to the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and projected profits. As of the close of the relevant markets on the trade date, we will determine the estimated initial value of the Securities by reference to our internal pricing models and it will be set forth in the relevant final terms supplement. The pricing models used to determine the estimated initial value of the Securities incorporate certain variables, including the level and volatility of the underlying asset and the underlying constituents, as applicable, any expected dividends on the underlying asset and the underlying constituents, as applicable, prevailing interest rates, the term of the Securities and our internal funding rate. Our internal funding rate is typically lower than the rate we would pay to issue conventional fixed or floating rate debt securities of a similar term. The underwriting discount, hedging costs, issuance costs, projected profits and the difference in rates will reduce the economic value of the Securities to you. Due to these factors, the estimated initial value of the Securities as of the trade date will be less than the issue price you pay for the Securities.

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o **The estimated initial value is a theoretical price; the actual price that you may be able to sell your Securities in any secondary market (if any) at any time after the trade date may differ from the estimated initial value** — The value of your Securities at any time will vary based on many factors, including the factors described above and in "—Market risk" above and is impossible to predict. Furthermore, the pricing models that we use are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. As a result, after the trade date, if you attempt to sell the Securities in the secondary market, the actual value you would receive may differ, perhaps materially, from the estimated initial value of the Securities determined by reference to our internal pricing models. The estimated initial value of the Securities does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your Securities in any secondary market at any time.

o **Our actual profits may be greater or less than the differential between the estimated initial value and the issue price of the Securities as of the trade date** — We may determine the economic terms of the Securities, as well as hedge our obligations, at least in part, prior to pricing the Securities on the trade date. In addition, there may be ongoing costs to us to maintain and/or adjust any hedges and such hedges are often imperfect. Therefore, our actual profits (or potentially, losses) in issuing the Securities cannot be determined as of the trade date and any such differential between the estimated initial value and the issue price of the Securities as of the trade date does not reflect our actual profits. Ultimately, our actual profits will be known only at the maturity of the Securities.

¨ **Limited or no secondary market and secondary market price considerations**.

o **There may be little or no secondary market for the Securities** — The Securities will not be listed or displayed on any securities exchange or any electronic communications network. UBS Securities LLC and its affiliates intend, but are not required, to make a market for the Securities and may stop making a market at any time. If you are able to sell your Securities prior to maturity, you may have to sell them at a substantial loss. Furthermore, there can be no assurance that a secondary market for the Securities will develop. The estimated initial value of the Securities does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your Securities in any secondary market at any time.

o **The price at which UBS Securities LLC and its affiliates may offer to buy the Securities in the secondary market (if any) may be greater than UBS' valuation of the Securities at that time, greater than any other secondary market prices provided by unaffiliated dealers (if any) and, depending on your broker, greater than the valuation provided on your customer account statements** — For a limited period of time following the issuance of the Securities, UBS Securities LLC or its affiliates may offer to buy or sell such Securities at a price that exceeds (i) our valuation of the Securities at that time based on our internal pricing models, (ii) any secondary market prices provided by unaffiliated dealers (if any) and (iii) depending on your broker, the valuation provided on customer account statements. The price that UBS Securities LLC may initially offer to buy such Securities following issuance will exceed the valuations indicated by our internal pricing models due to the inclusion for a limited period of time of the aggregate value of the underwriting discount, hedging costs, issuance costs and theoretical projected trading profit. The portion of such amounts included in our price will decline to zero on a straight line basis over a period ending no later than the date specified under "Supplemental Plan of Distribution (Conflicts of Interest); Secondary Markets (if any)" in the relevant final terms supplement. Thereafter, if UBS Securities LLC or an affiliate makes secondary markets in the Securities, it will do so at prices that reflect our estimated value determined by reference to our internal pricing models at that time. The temporary positive differential relative to our internal pricing models arises from requests from and arrangements made by UBS Securities LLC with the selling agents of structured debt securities such as the Securities. As described above, UBS Securities LLC and its affiliates intend, but are not required, to make a market for the Securities and may stop making a market at any time. The price at which UBS Securities LLC or an affiliate may make secondary markets at any time (if at all) will also reflect its then current bid-ask spread for similar sized trades of structured debt securities. UBS Financial Services Inc. and UBS Securities LLC reflect this temporary positive differential on their customer statements. Investors should inquire as to the valuation provided on customer account statements provided by unaffiliated dealers.

o **Economic and market factors affecting the terms and market price of Securities prior to maturity** — Because structured notes, including the Securities, can be thought of as having a debt component and a derivative component, factors that influence the values of debt instruments and options and other derivatives will also affect the terms and features of the Securities at issuance and the market price of the Securities prior to maturity. These factors include the level of the underlying asset; the volatility of the underlying asset; any dividends paid on the underlying asset, if applicable; the time remaining to the maturity of the Securities; interest rates in the markets; geopolitical conditions and economic, financial, political, force majeure and regulatory or judicial events; the creditworthiness of UBS; the then current bid-ask spread for the Securities and the factors discussed under "— Potential conflict of interest" below. These and other factors are unpredictable and interrelated and may offset or magnify each other.

o **Impact of fees and the use of internal funding rates rather than secondary market credit spreads on secondary market prices** — All other things being equal, the use of the internal funding rates described above under "—Fair value considerations" as well as the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and any projected profits are, subject to the temporary mitigating effect of UBS Securities LLC's and its affiliates' market making premium, expected to reduce the price at which you may be able to sell the Securities in any secondary market.

.. **Owning the Securities is not the same as owning the underlying asset or underlying constituents, as applicable** — The return on your Securities may not reflect the return you would realize if you actually owned the underlying asset or underlying constituents comprising the underlying asset, as applicable. For instance, you will not benefit from any positive underlying return in

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excess of an amount that, when multiplied by the multiplier, exceeds the maximum gain. Furthermore, you will not receive or be entitled to receive any dividend payments or other distributions during the term of the Securities and any such dividends or distributions will not be factored into the calculation of the payment at maturity on your Securities. In addition, as an owner of the Securities, you will not have voting rights or any other rights that a holder of the underlying asset or the underlying constituents, as applicable, may have.

¨ **No assurance that the investment view implicit in the Securities will be successful** — It is impossible to predict whether and the extent to which the level of the underlying asset will rise or fall and there can be no assurance that any percentage decline of the underlying asset from the initial level to the final level will be equal to or less than the threshold percentage. The level of the underlying asset will be influenced by complex and interrelated political, economic, financial and other factors that affect the underlying asset. You should be willing to accept the risks of owning equities in general and the underlying asset in particular, and to assume the risk of losing some or all of your initial investment.

¨ **The Securities may be subject to exchange rate risk** — The underlying asset of the Securities may be (1) the ADRs of a non-U.S. company, which are quoted and traded in U.S. dollars, but represent a non-U.S. stock that is quoted and traded in a non-U.S. currency and that may trade differently from the ADRs, (2) substituted or replaced by another underlying asset that is quoted and traded in a non-U.S. currency or (3) an ETF that invests in underlying constituents that are quoted and traded in a non-U.S. currency. Holders of these Securities will be exposed to currency exchange rate risks with respect to the currencies in which such assets trade. The value of the non-U.S. currency may be subject to a high degree of fluctuation due to changes in interest rates, the effects of monetary policies issued by the U.S., non-U.S. governments, central banks or supranational entities, the imposition of currency controls or other national or global political or economic developments. Therefore, adverse changes in exchange rates may result in reduced returns for Securities linked to these assets.

¨ **The Securities may be subject to risks associated with non-U.S. securities markets** — The underlying asset of the Securities may be (1) the common stock of a non-U.S. company that is listed on a U.S. exchange, (2) the ADRs of a non-U.S. company or (3) an ETF that invests in non-U.S. securities. An investment in the Securities linked to the value of non-U.S. companies involves risks associated with the home country of such non-U.S. companies. For example, the non-U.S. securities markets may be more volatile than the U.S. securities markets, and market developments may affect these markets differently from the U.S. or other securities markets. Direct or indirect government intervention to stabilize the securities markets outside the U.S., as well as cross-shareholdings in certain companies, may affect trading prices and trading volumes in those markets. Also, the public availability of information concerning the non-U.S. issuers may vary depending on their home jurisdiction and the reporting requirements imposed by their respective regulators. Securities prices generally are subject to political, economic, financial and social factors that apply to the markets in which they trade and, to a lesser extent, non-U.S. markets. Securities prices outside the U.S. are subject to political, economic, financial and social factors that apply in non-U.S. countries. These factors, which could negatively affect non-U.S. securities markets, include the possibility of changes in a non-U.S. government's economic and fiscal policies, the possible imposition of, or changes in, currency exchange laws or other laws or restrictions applicable to non-U.S. companies or investments in non-U.S. equity securities and the possibility of fluctuations in the rate of exchange between currencies. Moreover, non-U.S. economies may differ favorably or unfavorably from the U.S. economy in important respects such as growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

¨ **The Securities may be subject to risks associated with emerging market companies** – The underlying asset of the Securities may be the (1) common stock of a company organized in an emerging market country that is listed on a U.S. exchange, (2) the ADRs of a company organized in an emerging market country or (3) an ETF that invests in securities of companies organized in an emerging market country. Securities of emerging market companies may be more volatile and may be affected by market developments differently than U.S. companies. Government interventions to stabilize securities markets and cross-shareholdings may affect prices and volume of trading of the securities of emerging market companies. Economic, social, political, financial and military factors could, in turn, negatively affect such companies' value. These factors could include changes in the emerging market government's economic and fiscal policies, possible imposition of, or changes in, currency exchange laws or other laws or restrictions applicable to the emerging market companies or investments in their securities, and the possibility of fluctuations in the rate of exchange between currencies. Moreover, emerging market economies may differ favorably or unfavorably from the U.S. economy in a variety of ways, including growth of gross national product, rate of inflation, capital reinvestment, resources and self-sufficiency.

- **There are important differences between the ADRs and the ordinary shares of a non-U.S. company** — The underlying asset of the Securities may be the ADRs of a non-U.S. company. There are important differences between the rights of holders of ADRs and the rights of holders of non-U.S. stock represented by such ADRs. Each ADR is a security evidenced by an American depositary receipt that represents a specified number of shares of the non-U.S. stock. Generally, an ADR is issued under a deposit agreement, which sets forth the rights and responsibilities of the depositary, the non-U.S. stock issuer and holders of the ADRs, which may be different from the rights of holders of the non-U.S. stock. For example, the non-U.S. stock issuer may make distributions in respect of the non-U.S. stock that are not passed on to the holders of its ADRs. Any such differences between the rights of holders of the ADRs and holders of the non-U.S. stock may be significant and may materially and adversely affect the value of the ADRs and, as a result, the value of, and any amounts payable on, your Securities.
- **The value of an ETF underlying asset may not completely track the value of the target index –** The underlying asset may be an ETF. Such underlying asset may be designed and intended to track the level of a specified index (a "target index"), but various factors, including fees and other transaction costs, may prevent the underlying asset from correlating exactly with changes in the level of such target index. Accordingly, the performance of the underlying asset may not be equal to the performance of its target index during the term of the Securities.
- **The value of an ETF underlying asset may not completely track the value of its underlying constituents –** The underlying asset may be an ETF, and although the trading characteristics and valuations of the underlying asset will usually mirror the characteristics and valuations of its underlying constituents, its level may not completely track the level of such underlying constituents. The value of the underlying asset will reflect transaction costs and fees that the underlying constituents in which that ETF invests do not have. In addition, although the underlying asset may be currently listed for trading on an exchange, there is no assurance that an active trading market will continue for such underlying asset or that there will be liquidity in the trading market.

- **Fluctuation of the net asset value ("NAV")** – The underlying asset of the Securities may be an ETF. The NAV of an ETF may fluctuate with changes in the market value of such ETF's underlying constituents. The market prices of the underlying asset may fluctuate in accordance with changes in NAV and supply and demand on the applicable stock exchanges. Furthermore, the underlying constituents may be unavailable in the secondary market during periods of market volatility, which make it difficult for market participants to accurately calculate the intraday NAV per share of the underlying asset and may adversely affect the liquidity and
prices of the underlying asset, perhaps significantly. For any of these reasons, the market price of the underlying asset may differ from its NAV per share; the underlying asset may trade at, above or below its NAV per share.
- **An ETF underlying asset will likely utilize a passive indexing investment approach –** The underlying asset of the Securities may be an ETF. Generally, ETFs are not managed according to traditional methods of "active" investment management, which involve the buying and selling of securities based on economic, financial and market analysis and investment judgment. Instead, if an ETF utilizes a "passive" or indexing investment approach, attempt to approximate the investment performance of its target index by investing in a portfolio of stocks that generally replicate such index. Therefore, unless a specific stock is removed from such index, the ETF generally would not sell a stock because the stock's issuer was in financial trouble. In addition, ETFs are each subject to the risk that the investment strategy of their respective investment advisers may not produce the intended results.
- **There is no affiliation between the underlying asset issuer or any underlying constituent issuer, as applicable, and UBS, and UBS is not responsible for any disclosure by such issuers** — We and our affiliates may currently, or from time to time in the future engage in business with the underlying asset issuer or any underlying constituent issuer, as applicable. However, unless otherwise specified in the relevant final terms supplement, we are not affiliated with the underlying asset issuer or any underlying constituent issuer, as applicable, and are not responsible for such issuer's public disclosure of information, whether contained in SEC filings or otherwise. You, as an investor in the Securities, should conduct your own investigation into the underlying asset, the underlying asset issuer and each underlying constituent, as applicable. Neither the underlying asset issuer nor any underlying constituent issuer, as applicable, is involved in the Securities offered hereby in any way and has no obligation of any sort with respect to your Securities. The underlying asset issuer and any underlying constituent issuers, as applicable, have no obligation to take your interests into consideration for any reason, including when taking any corporate actions that might affect the value of, and any amounts payable on, your Securities.
- **The calculation agent can make antidilution and reorganization adjustments that affect the payment to you at maturity** — For antidilution and reorganization events affecting the underlying asset, the calculation agent may make adjustments to the initial level and/or the final level, as applicable, and any other term of the Securities. However, the calculation agent will not make an adjustment in response to every corporate event that could affect the underlying asset. If an event occurs that does not require the calculation agent to make an adjustment, the value of the Securities and your payment at maturity may be materially and adversely affected. In addition, all determinations and calculations concerning any such adjustments will be made by the calculation agent. You should be aware that the calculation agent may make any such adjustment, determination or calculation in a manner that differs from that discussed in the accompanying product supplement, this prospectus supplement or the relevant final terms supplement as necessary to achieve an equitable result. Following certain reorganization events relating to the underlying asset issuer where such issuer is not the surviving entity, the amount of cash you receive at maturity may be based on the equity security of a successor to the respective underlying asset issuer in combination with any cash or any other assets distributed to holders of the underlying asset in such reorganization event. If the underlying asset issuer becomes subject to (i) a reorganization event whereby the underlying asset is exchanged solely for cash, (ii) a merger or consolidation with UBS or any of its affiliates, or (iii) the underlying asset is delisted or otherwise suspended from trading, the amount you receive at maturity may be based on a substitute security. If the underlying asset of the Securities is an ETF, following a delisting or suspension from trading or discontinuance of the ETF, the amount you receive at maturity may be based on a share of another ETF or a basket of securities, futures contracts, commodities or other assets, as described further under "General Terms of the Securities— Delisting, Discontinuance or Modification of an ETF" in the accompanying product supplement. If the underlying asset of the Securities is the ADR of a non-U.S. company, following a delisting (including for this purpose the OTC Bulletin Board) or termination of the ADR facility, the amount you receive at maturity may be based on the non-U.S. stock represented

by the ADR as described under "General Terms of the Securities — Delisting of ADRs or Termination of ADR Facility" in the accompanying product supplement. The occurrence of any antidilution or reorganization event and the consequent adjustments may materially and adversely affect the value of the Securities and your payment at maturity, if any. For more information, see the sections "General Terms of the Securities — Antidilution Adjustments for Securities Linked to an Underlying Equity or Equity Basket Asset" and "—Reorganization Events for Securities Linked to an Underlying Equity or Equity Basket Asset" in the accompanying product supplement.

- **Potential UBS impact on the market price of the underlying asset or any underlying constituent, as applicable** — Trading or transactions by UBS or its affiliates in the underlying asset or any underlying constituent, as applicable, listed and/or over-the-counter options, futures or other instruments with returns linked to the performance of the underlying asset or any underlying constituent, as applicable, may adversely affect the market price of the underlying asset and, therefore, the market value of, and any amounts payable on, your Securities.
- **Potential conflict of interest** — UBS and its affiliates may engage in business with the underlying asset issuer or an underlying constituent issuer, as applicable, which may present a conflict between the obligations of UBS and you, as a holder of the Securities. There are also potential conflicts of interest between you and the calculation agent, which will be an affiliate of UBS. The calculation agent will determine the underlying return and the payment at maturity based on the closing level of the underlying asset on the final valuation date. The calculation agent may postpone the determination of the initial level, threshold percentage (and correlated downside multiplier) and/or maximum gain on the trade date and the final level on the final valuation date, if a market disruption event occurs and is continuing on that day, and may make adjustments to the initial level, final level and the underlying asset itself for antidilution and reorganization events affecting the underlying asset. For more information, see the sections "General Terms of the Securities — Antidilution Adjustments for Securities Linked to an Underlying Equity or Equity Basket Asset" and "—Reorganization Events for Securities Linked to an Underlying Equity or Equity Basket Asset" in the accompanying product supplement. As UBS determines the economic terms of the Securities, including the multiplier, threshold percentage (and correlated downside multiplier) and maximum gain, and such terms include the underwriting discount, hedging costs, issuance costs and projected profits, the Securities represent a package of economic terms. There are other potential conflicts of interest insofar as an investor could potentially get better economic terms if that investor entered into exchange-traded and/or OTC

derivatives or other instruments with third parties, assuming that such instruments were available and the investor had the ability to assemble and enter into such instruments.

- **Potentially inconsistent research, opinions or recommendations by UBS** — UBS and its affiliates publish research from time to time on financial markets and other matters that may influence the value of the Securities, or express opinions or provide recommendations that are inconsistent with purchasing or holding the Securities. Any research, opinions or recommendations expressed by UBS or its affiliates may not be consistent with each other and may be modified from time to time without notice. Investors should make their own independent investigation of the merits of investing in the Securities and the underlying asset to which the Securities are linked.
- **The Securities are not bank deposits** — An investment in the Securities carries risks which are very different from the risk profile of a bank deposit placed with UBS or its affiliates. The Securities have different yield and/or return, liquidity and risk profiles and would not benefit from any protection provided to deposits.
- **If UBS experiences financial difficulties, FINMA has the power to open restructuring or liquidation proceedings in respect of, and/or impose protective measures in relation to, UBS, which proceedings or measures may have a material adverse effect on the terms and market value of the Securities and/or the ability of UBS to make payments thereunder** — The Swiss Financial Market Supervisory Authority ("FINMA") has broad statutory powers to take measures and actions in relation to UBS if (i) it concludes that there is justified concern that UBS is over-indebted or has serious liquidity problems or (ii) UBS fails to fulfil the applicable capital adequacy requirements (whether on a standalone or consolidated basis) after expiry of a deadline set by FINMA. If one of these pre-requisites is met, FINMA is authorized to open restructuring proceedings or liquidation (bankruptcy) proceedings in respect of, and/or impose protective measures in relation to, UBS. The Swiss Banking Act grants significant discretion to FINMA in connection with the aforementioned proceedings and measures. In particular, a broad variety of protective measures may be imposed by FINMA, including a bank moratorium or a maturity postponement, which measures may be ordered by FINMA either on a stand-alone basis or in connection with restructuring or liquidation proceedings. The resolution regime of the Swiss Banking Act is further detailed in the FINMA Banking Insolvency Ordinance ("BIO-FINMA"). In a restructuring proceeding, FINMA, as resolution authority, is competent to approve the resolution plan. The resolution plan may, among other things, provide for (a) the transfer of all or a portion of UBS' assets, debts, other liabilities and contracts (which may or may not include the contractual relationship between UBS and the holders of Securities) to another entity, (b) a stay (for a maximum of two business days) on the termination of contracts to which UBS is a party, and/or the exercise of (w) rights to terminate, (x) netting rights, (y) rights to enforce or dispose of collateral or (z) rights to transfer claims, liabilities or collateral under contracts to which UBS is a party, (c) the conversion of UBS' debt and/or other obligations, including its obligations under the Securities, into equity (a "debt-to-equity" swap), and/or (d) the partial or full write-off of obligations owed by UBS (a "write-off"), including its obligations under the Securities. The BIO-FINMA provides that a debt-to-equity swap and/or a write-off of debt and other obligations (including the Securities) may only take place after (i) all debt instruments issued by UBS qualifying as additional tier 1 capital or tier 2 capital have been converted into equity or written-off, as applicable, and (ii) the existing equity of UBS has been fully cancelled. While the BIO-FINMA does not expressly address the order in which a write-off of debt instruments other than debt instruments qualifying as additional tier 1 capital or tier 2 capital should occur, it states that debt-to-equity swaps should occur in the following order: first, all subordinated claims not qualifying as regulatory capital; second, all other claims not excluded by law from a debt-to-equity swap (other than deposits); and third, deposits (in excess of the amount privileged by law). However, given the broad discretion granted to FINMA as the resolution authority, any restructuring plan in respect of UBS could provide that the claims under or in connection with the Securities will be partially or fully converted into equity or written-off, while preserving other obligations of UBS that rank *pari passu* with, or even junior to, UBS' obligations under the Securities. Consequently, holders of Securities may lose all of some of their investment in the Securities. In the case of restructuring proceedings with respect to a systemically important Swiss bank (such as UBS), the creditors whose claims are affected by the restructuring plan will not have a right to vote on, reject, or seek the suspension of the restructuring plan. In addition, if a restructuring plan has been approved by FINMA, the rights of a creditor to seek judicial review of the restructuring plan (e.g., on the grounds that the plan would unduly prejudice the rights of holders of Securities or otherwise be in violation of the Swiss Banking Act) are very limited. In particular, a court may not suspend the implementation of the restructuring plan. Furthermore, even if a creditor

successfully challenges the restructuring plan, the court can only require the relevant creditor to be compensated *ex post* and there is currently no guidance as to on what basis such compensation would be calculated or how it would be funded.

¨ **Dealer incentives** — UBS and its affiliates act in various capacities with respect to the Securities. We and our affiliates may act as a principal, agent or dealer in connection with the sale of the Securities. Such affiliates, including the sales representatives, will derive compensation from the distribution of the Securities and such compensation may serve as an incentive to sell these Securities instead of other investments. We will pay a total underwriting compensation equal to a percentage of the issue price per Security (such percentage to be specified in the relevant final terms supplement, but will not exceed 3.5%) to any of our affiliates acting as agents or dealers in connection with the distribution of the Securities. Given that UBS Securities LLC and its affiliates temporarily maintain a market making premium, it may have the effect of discouraging UBS Securities LLC and its affiliates from recommending sale of your Securities in the secondary market.

¨ **Uncertain tax treatment** — Significant aspects of the tax treatment of the Securities are uncertain. You should read carefully the section below entitled "What Are the Tax Consequences of the Securities?" and the section "Material U.S. Federal Income Tax Consequences", including the section "—Securities Treated as Prepaid Derivatives or Prepaid Forwards", in the accompanying product supplement and consult your tax advisor about your tax situation.

7

Hypothetical Performance Scenarios

This section provides examples of how the Securities perform under various scenarios and are provided for illustrative purposes only and are purely hypothetical. They do not purport to be representative of every possible scenario concerning increases or decreases in the final level of the underlying asset relative to the initial level. We cannot predict the final level of the underlying asset. You should not take these examples as an indication or assurance of the expected performance of the underlying asset. The examples below illustrate the payment at maturity for a $1,000 Security on a hypothetical offering of the Securities, with the following assumptions (the actual terms for each Security to be specified in the relevant final terms supplement; amounts may have been rounded for ease of reference):

Principal Amount:	$1,000
Term:	12 months
Initial Level:	$140
Multiplier:	2.0
Maximum Gain:	15%
Threshold Percentage:	20%
Downside Multiplier	1.25

Example 1 — The Final Level of the Underlying Asset is $154 (resulting in an Underlying Return of 10%).

Given the above assumptions, the underlying return would be calculated as follows:

$$\text{Underlying Return} = \frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}} = \frac{\$154 - \$140}{\$140} = 10\%$$

Because the underlying return of 10%, when multiplied by the multiplier of 2.0, is greater than the maximum gain of 15%, the payment at maturity would be calculated as follows:

$1,000 + ($1,000 × 15%)

= $1,000 + $150

= $1,150 per Security (a total return of 15%).

Example 2 — The Final Level of the Underlying Asset is $147 (resulting in an Underlying Return of 5%).

Given the above assumptions, the underlying return would be calculated as follows:

$$\text{Underlying Return} = \frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}} = \frac{\$147 - \$140}{\$140} = 5\%$$

Because the underlying return of 5%, when multiplied by the multiplier of 2.0, is less than the maximum gain of 15%, the payment at maturity would be calculated as follows:

$1,000 + ($1,000 × 5% × 2.0)

= $1,000 + $100

= $1,100 per Security (a total return of 10%).

Example 3 — The Final Level of the Underlying Asset is $133 (resulting in an Underlying Return of -5%).

Given the above assumptions, the underlying return would be calculated as follows:

$$\text{Underlying Return} = \frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}} = \frac{\$133 - \$140}{\$140} = -5\%$$

Because the underlying return at maturity is negative and the percentage decline from the initial level to the final level is equal to or less than the threshold percentage, the payment at maturity would be equal to the principal amount of $1,000 per Security (a total return of 0%).

Example 4 — The Final Level of the Underlying Asset is $70 (resulting in an Underlying Return of -50%).

Given the above assumptions, the underlying return would be calculated as follows:

$$\text{Underlying Return} = \frac{\text{Final Level} - \text{Initial Level}}{\text{Initial Level}} = \frac{\$70 - \$140}{\$140} = -50\%$$

Because the underlying return at maturity is negative and the percentage decline from the initial level to the final level is greater than the threshold percentage, the investor is exposed at a proportionately higher percentage relative to the percentage decline in the level of the underlying asset in excess of the threshold percentage. In this example, the payment at maturity would be calculated as follows:

$1,000 + [$1,000 × (-50% + 20%) × 1.25]

= $1,000 – $375

= $625 per Security (a loss of 37.5%).

Investing in the Securities involves significant risks. The Securities are exposed at a proportionately higher percentage relative to any percentage decline in the level of the underlying asset in excess of the threshold percentage from the trade date to the final valuation date. Specifically, if the percentage decline of the underlying asset from the initial level to the final level is greater than the threshold percentage, you will lose a percentage of your principal amount equal to the percentage decline in excess of the threshold percentage multiplied by the downside multiplier and, in extreme situations, you could lose all of your initial investment. The stated payout from the issuer only applies if you hold the Securities to maturity.

Any payment on the Securities, including any repayment of principal, is subject to the creditworthiness of UBS. If UBS were to default on its payment obligations, you may not receive any amounts owed to you under the Securities and you could lose all of your initial investment.

What Are the Tax Consequences of the Securities?
The U.S. federal income tax consequences of your investment in the Securities are uncertain. There are no statutory provisions, regulations, published rulings or judicial decisions addressing the characterization for U.S. federal income tax purposes of securities with terms that are substantially the same as the Securities. Some of these tax consequences are summarized below, but we urge you to read the more detailed discussion in "Material U.S. Federal Income Tax Consequences" in the accompanying product supplement and to discuss the tax consequences of your particular situation with your tax advisor. This discussion is based upon the Internal Revenue Code of 1986, as amended (the "Code"), final, temporary and proposed U.S. Treasury Department (the "Treasury") regulations, rulings and decisions, in each case, as available and in effect as of the date hereof, all of which are subject to change, possibly with retroactive effect. Tax consequences under state, local and non-U.S. laws are not addressed herein. No ruling from the U.S. Internal Revenue Service (the "IRS") has been sought as to the U.S. federal income tax consequences of your investment in the Securities, and the following discussion is not binding on the IRS.

U.S. Tax Treatment. Pursuant to the terms of the Securities, UBS and you agree, in the absence of a statutory or regulatory change or an administrative or judicial ruling to the contrary, to characterize the Securities as prepaid derivative contracts with respect to the underlying asset and the terms of the Securities require you and us (in the absence of a statutory or regulatory change or an administrative or judicial ruling to the contrary) to treat the Securities for all tax purposes in accordance with such characterization. If the Securities are so treated, you should generally not accrue any income with respect to the Securities during the term of the Securities until the taxable disposition of the Securities and you should generally recognize gain or loss upon the taxable disposition of your Securities in an amount equal to the difference between the amount realized at such time and your tax basis in the Securities. In general, your tax basis in your Securities will be equal to the price you paid for them. Subject to the "constructive ownership rules" discussed below, such gain or loss should generally be long-term capital gain or loss if you have held your Securities for more than one year (otherwise such gain or loss should be short-term capital gain or loss if held for one year or less). However, it is possible that the IRS could assert that your holding period in respect of your Securities should end on the date on which the amount you are entitled to receive upon maturity of your Securities is determined, even though you will not receive any amounts from the issuer in respect of your Securities prior to the maturity of your Securities. In such case, you may be treated as having a holding period in respect of your Securities which ends prior to the maturity of your Securities, and such holding period may be treated as less than one year even if you receive cash upon the maturity of your Securities at a time that is more than one year after the beginning of your holding period. The deductibility of capital losses is subject to limitations.

Constructive Ownership. If a Security references an underlying asset that is a "regulated investment company" (or a "trust") such as certain ETFs, a real estate investment trust (a "REIT"), a passive foreign investment company (a "PFIC"), a partnership, or other "pass-thru entity" for purposes of Section 1260 of the Code, it is possible that the "constructive ownership transaction" rules of Section 1260 of the Code may apply. Under the "constructive ownership" rules, if an investment in the Securities is treated as a "constructive ownership transaction," any long-term capital gain recognized by a U.S. holder in respect of such Securities will be recharacterized as ordinary income to the extent such gain exceeds the amount of "net underlying long-term capital gain" (as defined in Section 1260 of the Code) of the U.S. holder (the "Excess Gain"). In addition, an interest charge will also apply to any deemed underpayment of tax in respect of any Excess Gain to the extent such gain would have resulted in gross income inclusion for the U.S. holder in taxable years prior to the taxable year of the taxable disposition of the Security (assuming such income accrued such that the amount in each successor year is equal to the income in the prior year increased at a constant rate equal to the applicable federal rate as of the date of taxable disposition of the Security). There exists a risk that an investment in Securities that are linked to shares of an ETF, PFIC, REIT or other "pass-thru entity" could be treated as a "constructive ownership transaction". Furthermore, depending on the precise terms of a particular offering of Securities that reference an ETF or other "pass-thru entity", the risk may be substantial that such Securities would be treated as a "constructive ownership transaction", and that all or a portion of any long-term capital gain recognized with respect to such Securities could be recharacterized as ordinary income and subject to an interest charge (or, in the case of a gold or silver ETF, subject to a special 28% maximum rate that is applicable to "collectibles").

If such treatment applies, it is not clear to what extent any long-term capital gain recognized by a U.S. holder in respect of a Security may be recharacterized as ordinary income and subject to the interest charge described above, in part because it is not clear how the "net underlying long-term capital gain" would be computed in respect of a Security. It is possible, for example, that the "net underlying long-term capital gain" could equal the amount of long-term capital gain a U.S. holder would have recognized if on the issue date of the Security the holder had invested an allocable portion of the face amount of the Security in shares of the underlying asset that is treated as a "pass-thru entity" and sold those shares for their fair market value on the date the Security is sold, exchanged or retired. However, it is also possible that because the U.S. holder does not share in distributions made on the underlying asset, these distributions could be excluded from the calculation of the amount and character of gain, if any, that would have been realized had the U.S. holder held the underlying asset directly and that the application of constructive ownership rules (other than with respect to a gold or silver ETF) may not recharacterize adversely a significant portion of the long-term capital gain you may recognize with respect to the Securities. Unless otherwise established by clear and convincing evidence, the "net underlying long-term capital gain" is treated as zero.

Accordingly, if such treatments applies, all or a portion of any gain on the taxable disposition of a Security after one year could be treated as "Excess Gain" from a "constructive ownership transaction," which gain would be recharacterized as ordinary income (or in the case of a gold or silver ETF, subject to a special 28% maximum rate that is applicable to "collectibles"), and subject to an interest charge. **You should consult your tax advisors regarding the potential application of the "constructive ownership" rules to an investment in the Securities.**

Section 1297. We will not attempt to ascertain whether any underlying asset issuer would be treated as a PFIC within the meaning of Section 1297 of the Code. If any such entity were so treated, certain adverse U.S. federal income tax consequences might apply upon the taxable disposition of a Security. You should refer to information filed with the Securities and Exchange Commission or the equivalent governmental authority by such entities and consult your tax advisor regarding the possible consequences to you if any such entity is or becomes a PFIC.