UBS

Structured Products

Designing a modern portfolio

Achieving your personal goals is the driving motivation for how and why you invest. Whether your goal is to grow and preserve wealth, save for your children's education, maintain your lifestyle in retirement or give to a cause that is important to you, we are here to help you achieve it.

An integral part of a *modern portfolio*

Investment objectives change throughout one's life. In order to keep pace with these evolving goals and circumstances, your portfolio may require a greater degree of sophistication. You may want to look beyond stocks, bonds and mutual funds to consider investments that can provide more flexibility and control in pursuing your goals. One such investment is structured products. No other financial instrument lets you implement your market view and control your risk level so precisely. You can either choose from among the structured products carefully developed for UBS clients, or work with your Financial Advisor to customize an investment specifically for your individual circumstances.

Reduce market risk

Perhaps you are looking to transition to retirement and are concerned about an untimely market decline undermining your plans. Or maybe you're years from retirement but are still concerned about near-term market risk and would like to mitigate its impact on your portfolio. Structured products offer a range of choices for investors seeking to maintain market exposure while reducing downside market risk.

Enhance potential returns

On the other hand, you may be seeking to improve the returns or income generated by your portfolio. Structured products can provide opportunities to enhance growth or yield for investors willing to accept market risk.

Access markets and innovation

You may be considering diversifying your portfolio with investments in commodities, foreign currencies or emerging markets. Structured products can provide exposure to markets that may be difficult for you to access, as well as opportunities to reduce market risk which can make entering these new markets much more comfortable.

What are structured products?

While structured products may be new to you, they have been used for decades by institutional and individual investors. A structured product combines many of the characteristics of a bond with certain of the features and risks of the structured product's underlying asset.

Like a bond, a structured product is issued by a corporation, usually an investment grade financial company, and is subject to the credit risk of the issuer. But unlike a bond, a structured product is linked to an underlying asset and may offer some or all of the upside growth as well as the downside market risk of the underlying asset. Regardless of its features, all payments on a structured product are made by its issuer, and if the issuer is unable to pay its obligations when due, investors may lose some or all of their investment.

Underlying asset
The index, security, commodity or other investment or benchmark to which a structured product is linked.

Structured products at UBS

A platform designed around your needs
Your needs are at the center of our industry-leading structured products platform. Our success is rooted in the practice of having clients' needs and concerns be the only motivation for what we offer.

Built on research, powered by competition
The investment strategies that form the basis of our structured products offerings come from understanding your goals and needs as well as from implementing our published research recommendations. Once we are prepared to move forward with an investment strategy, we source the actual structured product from among several potential issuers, not just from UBS. By putting product issuers in competition for your business whenever possible, we seek to control costs and improve pricing for you. It places us in the position of being able to demand the highest level of service for our clients. This open architecture platform also allows us to tap into the latest strategies from the most sophisticated investment banks in the world and deliver them to you.

Creating your own opportunities
If our current offerings do not address your needs, you can quickly create an individualized investment with the help of your Financial Advisor, aligned with your portfolio and tailored to your specifications. Your structured product can match your individual risk profile, your investment horizon, your market view and more. And because we put your needs at the center of everything we do, you will have a choice from among many providers to issue your structured product. The ability to create individualized structured investments is subject to a minimum investment requirement.

Key risks

Investing in structured products involves significant risks. Some of the key risks are summarized below. Investors should carefully review the more detailed discussion of risks in the issuer's offering materials prior to investing in any product.

Issuer credit risk
A structured product is an unsecured obligation of the applicable issuer. Any payment on a structured product, including any repayment of principal, is subject to the creditworthiness of the issuer. If the issuer is unable to pay its obligations as they come due, investors may lose some or all of their investment in the product.

Risk of loss
Many structured products subject investors to the downside market risk of an underlying asset. Depending on the product, investors may lose some or all of their investment if the underlying asset declines in value.

Potential returns may be limited
Potential returns on a structured product may be limited. Investors may not participate in the growth potential of an underlying asset beyond a certain limit or at all.

Performance prior to maturity
In addition to the performance of the underlying asset, structured product fees and market factors that influence the price of bonds and options generally will also influence the value of a structured product prior to maturity. Therefore, the value of a structured product prior to maturity may be more or less than its initial price and may be substantially different from the payment expected at maturity. Investors must hold their structured product to maturity to receive the stated payout, including any repayment of principal.

No guarantee of liquidity
Unless explicitly stated otherwise in the offering materials, a structured product will not be listed on any exchange. Typically, any available liquidity is provided by the issuer as a service to investors, but the issuer is not obligated to provide a secondary market. If an issuer is making a secondary market for its structured product, it may be at a significant discount to the fair value of the product. As a result, investors should be prepared to hold their structured product to maturity.

No dividends or voting rights
In owning a structured product rather than owning the underlying asset directly, investors give up certain benefits associated with direct ownership. If the underlying asset pays a dividend, that dividend will not be paid out to investors. Investors also will not have voting rights that direct owners may have.

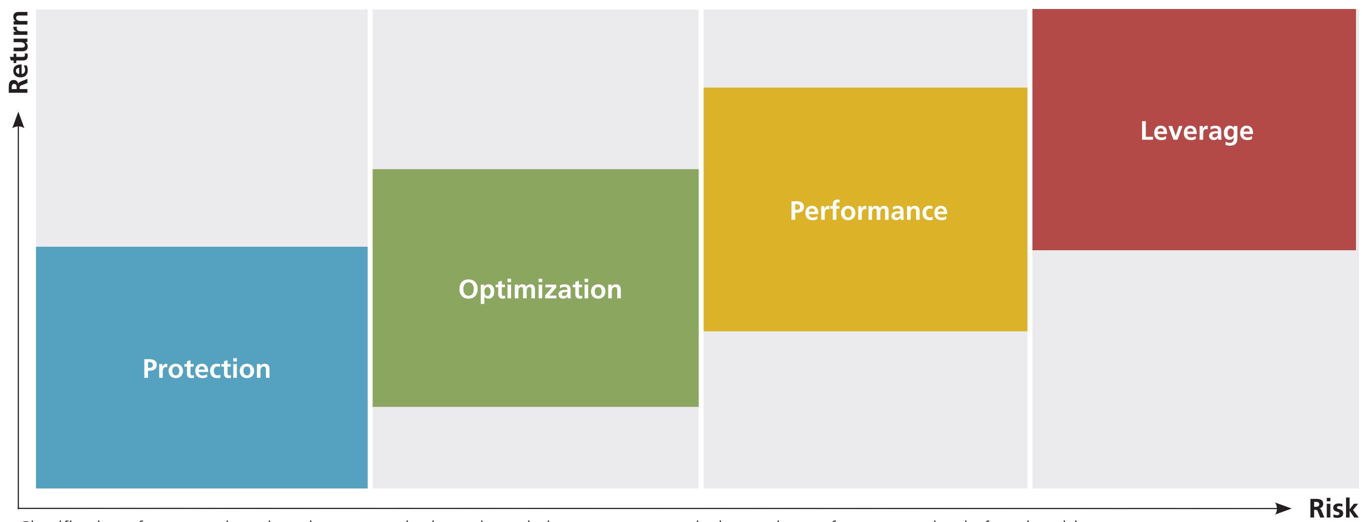
Potential conflicts
The issuer of a structured product and its affiliates may play a variety of roles in connection with the structured product, including acting as calculation agent and hedging the issuer's obligations under the structured product. In performing these duties, the economic interests of the calculation agent and other affiliates of the issuer may be adverse to the interests of investors in the structured product.

Taxation
The tax treatment of a structured product may be very different from that of a traditional investment or the underlying asset. The issuer's offering materials for a structured product will contain a tax disclosure discussing the expected federal income tax consequences of investing in the product. Significant aspects of the tax treatment of a structured product may be uncertain. UBS Financial Services Inc. and its employees do not provide tax advice. Investors should consult their own tax advisors about their tax situation before investing in any structured product.

Additional disclosure for structured CDs
Structured CDs are deposit obligations of the applicable issuer. In the event the issuer fails, the principal amount of the CD would be insured by the FDIC up to applicable statutory limits. To the extent this amount, combined with all other deposits an investor holds in the same capacity at the same bank, exceeds FDIC insurance limits, the investor would be subject to the credit risk of the issuer and may lose all of this excess amount. FDIC insurance does not apply to any market-linked return, and investors may not receive this payment if the bank fails. The rules and regulations regarding the limit and applicability of FDIC insurance coverage can change. The FDIC also has the right to terminate the deposit insurance of a bank under certain limited circumstances, which could potentially result in the loss of FDIC insurance for a CD prior to maturity. For the latest information regarding FDIC insurance coverage, visit *fdic.gov*.

The UBS structured products spectrum

UBS classifies structured products into four categories to make it easier to identify the investment that may suit your needs:



Classification of structured products into categories is not intended to guarantee particular results, performance or level of market risk.

Protection. Protection strategies are structured to complement and provide the potential to outperform traditional fixed income investments. These structured products are generally designed for investors with low to moderate risk tolerances.

Optimization. Optimization strategies provide the opportunity to enhance market returns or yields and can be structured with full downside market exposure or with buffered or contingent downside market exposure. These structured products are generally designed for investors who can tolerate downside market risk.

Performance. Performance strategies provide efficient access to markets and can be structured with full downside market exposure or with buffered or contingent downside market exposure. These structured products are generally designed for investors who can tolerate downside market risk.

Leverage. Leverage strategies provide leveraged exposure to the performance of an underlying asset. These structured products are generally designed for investors with high risk tolerances.

In addition, UBS arranges its offerings into three platforms to complement various investment styles:

Portfolio Platform: strategies linked to benchmark investments and indexes that can be used as part of the core portfolio construction process to reduce risk and/or enhance returns.

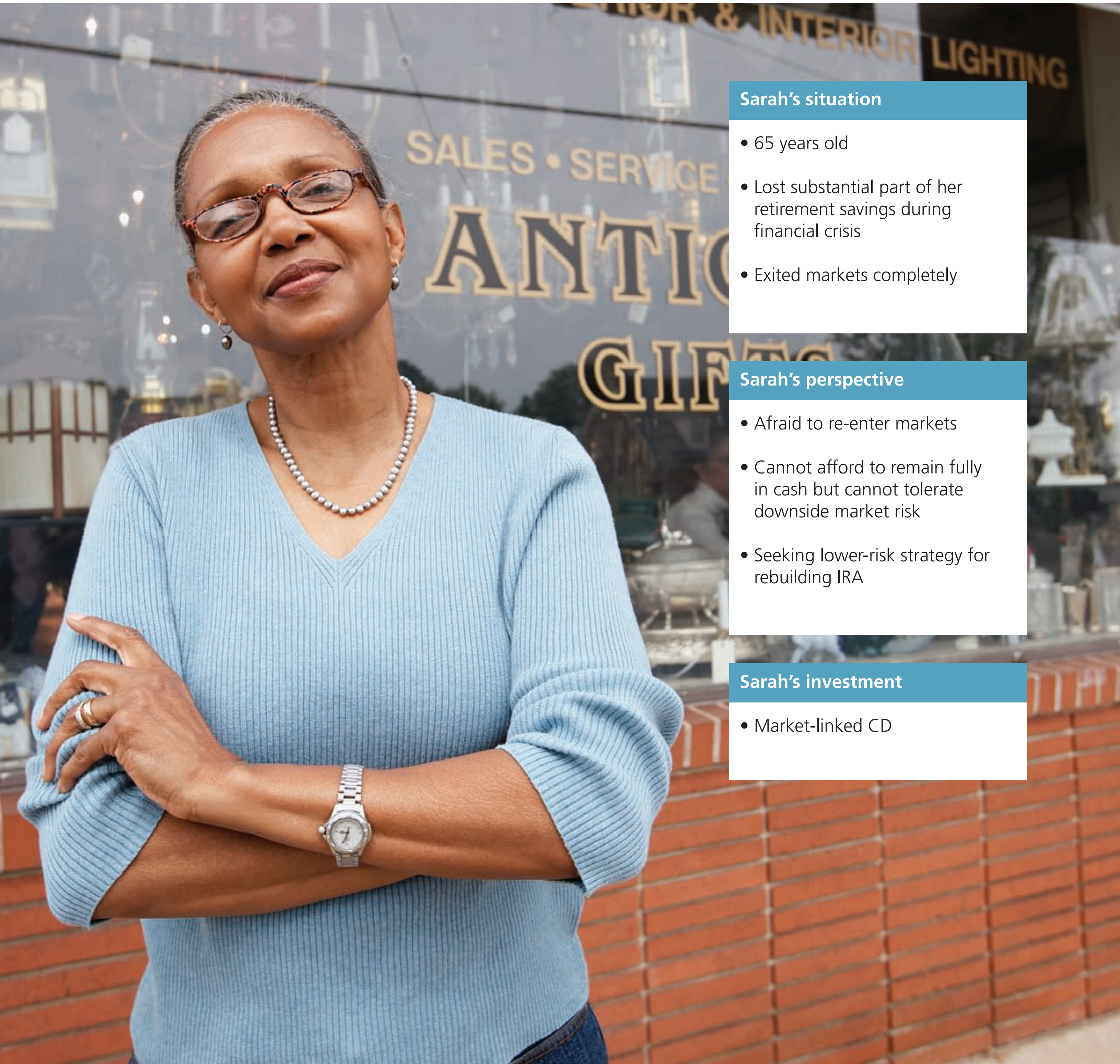
Single Stock Platform: strategies linked to individual stocks (or shares of ETFs) that can be used to enhance the return or yield potential of an investor's portfolio, although investors should be careful to consider any downside market risk associated with these investments.

Special Opportunities Platform: strategies whose design is based on specific market opportunities or outlooks; these investments can be used to implement a tactical market view, address a specific investor need or take advantage of a new market opportunity.

Case studies

The real world application of structured products within client portfolios can take many forms. The following pages illustrate just a few of the ways that structured products can be employed to help you achieve your financial goals. We encourage you to discuss with your UBS Financial Advisor how structured products may be appropriate to your needs.

Integrating structured products into your portfolio
Meet Sarah



Sarah's situation

- 65 years old
- Lost substantial part of her retirement savings during financial crisis
- Exited markets completely

Sarah's perspective

- Afraid to re-enter markets
- Cannot afford to remain fully in cash but cannot tolerate downside market risk
- Seeking lower-risk strategy for rebuilding IRA

Sarah's investment

- Market-linked CD

Sarah decides to invest $100,000 in a Market-Linked CD linked to a U.S. stock index. This CD allows her to participate in some of the growth of the U.S. stock market without any of the downside market risk at maturity.

Example terms:

- 5-year maturity
- Participates in any positive return of the index at maturity up to a maximum gain of 50%
- No participation in any negative index return at maturity
- Any payment on the CD, including any repayment of principal, is subject to the creditworthiness of the issuer; in the event the issuer fails, FDIC insurance would apply only to the principal amount of a CD and only up to statutory limits

Scenario 1

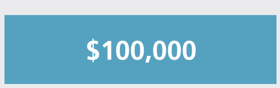
The index grows by 30% over the 5-year term of the CD.
Sarah's investment grows by 30%, from $100,000 to $130,000 at maturity.

Scenario 2

The index grows by 60% over the 5-year term of the CD.
Even though the index grows by 60%, the return of the CD is capped by the 50% maximum gain. Sarah's investment grows by 50% from $100,000 to $150,000.

Scenario 3

The index declines by 30% over the 5-year term of the CD.
Sarah is not exposed to the index decline at maturity and receives her original $100,000 at maturity.



Principal amount

Investment growth

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Integrating structured products into your portfolio
Meet Tom and Anna

Tom and Anna’s situation

- 46 years old
- Invested in mutual funds
- Active management did not help during the financial crisis and they suffered significant losses

Tom and Anna’s perspective

- They are looking to get back some of the assets they lost
- Want to reduce their downside market risk

Tom and Anna’s investment

- Buffered Return Optimization Security

Tom and Anna decide to invest $100,000 in a Buffered Return Optimization Security linked to an international stock index. This security allows them to potentially enhance their upside exposure to international stocks up to a maximum gain, with reduced downside market risk at maturity.

Example terms:

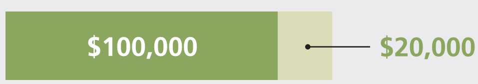
- 2-year maturity
- 1.25 times any positive return of the index at maturity up to a maximum gain of 20%
- No downside market exposure at maturity to the first 10% decline in the index, and downside exposure only to the extent the index decline exceeds 10%
- Any payment on the security, including any repayment of principal, is subject to the creditworthiness of the issuer

Scenario 1

The index grows by 12% over the 2-year term of the security.
Tom and Anna's investment grows by 15% (equal to 12% times 1.25), from $100,000 to $115,000 at maturity.

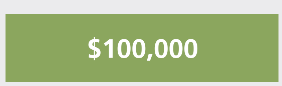
Scenario 2

The index grows by 30% over the 2-year term of the security.
Even though the index grows by 30%, the return of the security is capped by the 20% maximum gain. Tom and Anna's investment grows by 20%, from $100,000 to $120,000 at maturity.



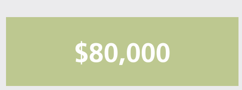
Scenario 3

The index declines by 10% over the 2-year term of the security.
Tom and Anna are not exposed to the index decline at maturity and receive their original $100,000 at maturity.



Scenario 4

The index declines by 30% over the 2-year term of the security.
Tom and Anna are only exposed to the index decline in excess of 10% at maturity. Their investment declines by 20% and they receive $80,000 at maturity.



- Principal amount
- Investment growth
- Remaining principal amount

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Integrating structured products into your portfolio
Meet Rob

Rob's situation

- 60 years old
- Invested in exchange traded funds
- Prefers lower-cost indexed strategies to active management

Rob's perspective

- Wants to maintain his U.S. stock market exposure
- Willing to explore efficient strategies for reducing downside market risk

Rob's investment

- Trigger Performance Security

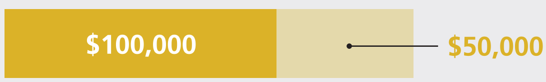
Rob decides to invest $100,000 in a Trigger Performance Security linked to a U.S. stock index. This security allows him to participate in the growth potential of the index, with the potential to reduce downside market risk at maturity.

Example terms:

- 5-year maturity
- 125% participation in any positive return of the index at maturity
- No downside market exposure at maturity to the first 50% decline in the index; full downside exposure to the index if the index decline at maturity exceeds 50%
- Any payment on the security, including any repayment of principal, is subject to the creditworthiness of the issuer

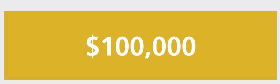
Scenario 1

The index grows by 40% over the 5-year term of the security.
Rob's investment grows by 50% (equal to 40% times 125%), from $100,000 to $150,000 at maturity.



Scenario 2

The index declines by 40% over the 5-year term of the security.
Because the index did not decline by more than 50% over the term of the security, Rob is not exposed to any of the index's decline but instead receives his original $100,000 at maturity.



Scenario 3

The index declines by 60% over the 5-year term of the security.
Because the index declines by more than 50% over the term of the security, Rob is exposed to the full index decline at maturity. His investment declines by 60% and he receives $40,000 at maturity.

Principal amount

Investment growth

Remaining principal amount

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Integrating structured products into your portfolio
Meet Jake

Jake's situation

- 40 years old
- Invests in stocks

Jake's perspective

- Expects a range-bound equity market in the near term
- Feels that XYZ is a stable company and confident stock won't fall drastically

Jake's investment

- Trigger Yield Optimization Note

Jake decides to invest $50,000 in a Trigger Yield Optimization Note linked to XYZ stock. This note provides enhanced income with full downside market exposure to the stock if the stock declines beyond a specified level.

Example terms:

- 1-year maturity
- Issue price per note is equal to 1 share of the stock on the trade date (e.g., $10). A $50,000 investment would consist of 5,000 notes.
- 10% per annum coupon, paid monthly
- At maturity, the issuer returns the full principal amount as long as the stock has not declined by more than 25% over the term of the notes; if the stock has declined by more than 25%, the issuer delivers 1 share of the underlying stock per note which is expected to be worth significantly less than the principal amount per note.
- Any payment on the security, including any repayment of principal, is subject to the creditworthiness of the issuer

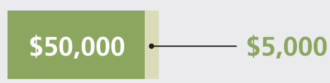
Principal amount

Total coupons

Shares of stock

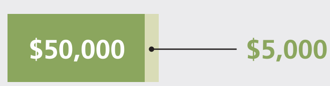
Scenario 1

The stock appreciates by 20% over the 1-year term of the note.
Jake does not participate in any of the stock's growth but instead receives a total of 10% in coupon payments over the term of the note ($5,000 total) and a return of principal at maturity.



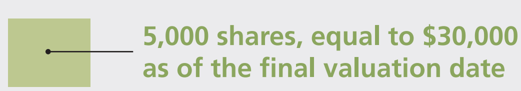
Scenario 2

The stock declines by 20% over the 1-year term of the note.
Jake receives a total of 10% in coupon payments over the term of the note ($5,000 total). Because the stock did not decline by more than 25% over the term of the note, Jake does not participate in any of the stock's decline but instead receives a return of principal at maturity.



Scenario 3

The stock declines by 40% over the 1-year term of the note.
Jake receives a total of 10% in coupon payments over the term of the note ($5,000 total). Because the stock declined by more than 25% over the term of the note, Jake receives 1 share of stock per note (5,000 shares). Because the stock declined in value, the shares that Jake receives are only worth $30,000 as of the final valuation date which, combined with the coupon payments received, results in a loss to Jake of 30% on his investment.



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