UBS

Important information about structured products

Disclosure

Highlights

- A structured product is an unsecured obligation of an issuer with a return, generally paid at maturity, that is linked to the performance of an underlying asset.
- The return of a structured product will depend on the performance of the underlying asset and the specific features of the investment.
- Features and risks of structured products can affect terms at issuance, returns at maturity and the value of the structured product before maturity.
- Structured products may have limited or no liquidity before maturity.
- Before investing, you should understand the unique risks and features associated with structured products.

Table of contents

Why this is important

This information is designed to help you understand the general risks associated with structured products. We may periodically make updates to this guide in order to keep you informed about important considerations when deciding to participate in these investments. For a detailed discussion of the specific risks involved in investing in any particular structured product, you must read the relevant offering materials for that investment.

What is a structured product?

A structured product is an unsecured obligation that generally takes the form of notes issued by the respective issuer (structured notes), but can also be certificates of deposit (structured CDs), as well as warrants. The return at maturity on a structured product is linked to the performance of an underlying asset—which is typically an investable asset or market index.

Structured products often provide features designed to enhance the return and/or reduce the market risk of the exposure to the underlying asset at maturity when compared to a direct investment in the underlying asset.

The payment on a structured product is economically similar to the payment that could be achieved by combining a bond with one or more options or other derivative instruments.

When you purchase a structured product, you will own a single instrument and will not have any rights to any bonds, options, underlying assets or other hypothetical components.

If you would like additional information on options, you can review the Options Clearing Corporation's guide called *Characteristics & Risks of Standardized Options*. As always, your Financial Advisor can also provide you a copy of this information at your request.

Questions

Please contact your Financial Advisor if you have any questions.

Credit risk associated with structured products

A structured note or warrant is issued as an unsecured obligation of a corporate issuer. Because the note or warrant is not backed by any collateral, any payment on these structured products, including any repayment of principal and any feature reducing downside market risk, depends solely on the ability of the issuer to pay. If the issuer is bankrupt or is otherwise unable to pay its obligations as they come due, you may lose some or all of your investment in the structured product.

A structured CD is issued as a deposit obligation of a bank. If you are thinking about investing in a structured CD, it is important to know that there are limitations to any FDIC insurance that may apply. Generally only the principal amount of your investment (but not any market-linked returns) will be covered by FDIC insurance, and only up to statutory limits (currently $250,000). If the issuer of your structured CD becomes unable to pay its obligations, you will not receive any market-linked return that hasn't already accrued and you may lose any portion of your principal that, when combined with other deposit amounts held in the same capacity at that issuer, exceeds such statutory limits. Always carefully evaluate the credit quality of the issuer when you are considering investing in any structured product.

Additionally, many countries have begun implementing resolution provisions regarding their systemically important financial institutions. The general effect of these provisions is to allow regulatory authorities to attempt to minimize the impact of a failing institution on the broader economy and financial system. These types of provisions could allow the debt obligations of a bank, including its structured notes and warrants, to be restructured, written-down or converted to equity, potentially resulting in a loss to investors. Because these types of provisions may be exercised even if the bank is not in bankruptcy or has yet to default, they must be considered in addition to traditional issuer credit risk.

Factors that affect structured product terms

The payment on a structured product is economically similar to a combination of a bond with one or more options or derivative instruments. Therefore, when a structured product is created, its terms and features are based on factors that can affect the pricing of bonds and options.

Factors that can affect the pricing of a bond include time to maturity, market interest rates and issuer creditworthiness. Factors that can affect the pricing of an option include expected dividends of the underlying asset, correlation of underlying assets if there are more than one, time to expiration, market interest rates, the underlying asset price relative to the option's strike price and the "implied volatility" of the underlying asset (the expected frequency and magnitude of changes of the underlying asset's price).

Your Financial Advisor can help you understand the specific factors that affect your structured product's terms.

Factors that affect returns at maturity

The return of a structured product will depend on the performance of the underlying asset and the specific features of the investment. Therefore, you should fully understand the underlying asset, in addition to the following:

– Maximum return features
– Market risk reduction features
– Call features
– Income features
– Other features that may apply to structured products

The underlying asset of a structured product

The return of the underlying asset is a reference for determining the return on a structured product. You may have exposure to some, all or none of the upside or downside performance of the underlying asset at maturity depending on the features of the investment. When purchasing a structured product you are not investing directly in the underlying asset (although certain structured products may result in your owning the underlying asset at maturity). The underlying asset can be any of the following:

– A stock
– A commodity
– An index
– An interest rate
– A foreign exchange rate
– Other investable assets or market measures
– A combination of any of the above

Events that affect the underlying asset over the term of the investment may have an effect on the structured product's return at maturity. Stocks can be subject to mergers, spin-offs, extraordinary distributions and other corporate events that could impact their value and, therefore, the return of the investment at maturity. Indexes can be subject to rebalancing or alterations by the index provider or can be discontinued. Other underlying assets may be subject to other types of events. A structured product may provide for adjusting the payout at maturity if some of these types of events occur, but not every type of event may lead to an adjustment under the investment. Any adjustment that is made will not necessarily leave you in the same economic position as you would have been had the event not occurred.

Events that affect the ability to value the underlying asset may ultimately impact the structured product's return at maturity. If the exchange or market where the underlying asset is traded is unexpectedly closed or if some other market disruption event occurs, the valuation of the underlying asset for purposes of determining the structured product's return may be postponed. This postponed valuation could result in a return that is less favorable than if the valuation had not been postponed.

You should consult the specific offering documents for:
– A brief description of the underlying asset
– Possible hyperlinks to additional sources of information regarding the underlying asset
– A discussion of the types of events that can affect the underlying asset and the adjustments that may be made if those events occur
– A discussion of market disruption events and the process for valuing the underlying asset in the event of a market disruption event

Maximum return features
A structured product may contain a feature that caps the return that you can receive at maturity. If the return of the underlying asset at maturity exceeds the maximum return of the structured product, the investment may underperform a direct investment in the underlying asset. Before investing in a structured product with a maximum return, you should consider this risk of underperformance.

Market risk reduction features
A structured product may contain a feature to reduce the downside market exposure to the underlying asset. Because the returns on structured products are tied to the performance of the underlying asset, the principal amount of some structured products may be exposed to downside market risk. In this respect, structured products may differ from ordinary fixed-income debt instruments. In order to reduce this downside market exposure, structured products may include features that provide for the issuer to pay you back, at maturity, some or all of your principal even if the underlying asset declines in value.

In addition, any market risk reduction feature only applies at maturity. If you are able to sell your structured product in the secondary market prior to maturity, you may have to sell it at a loss relative to your initial investment, even if your investment would not have resulted in a loss at maturity.

It is also important to remember that any market risk reduction feature is an obligation of the issuer and not of any third party. It is a term of the investment and also subject to the creditworthiness of the issuer. If the issuer is bankrupt or otherwise unable to pay its obligations when due, it may be unable to deliver on its promise and you may lose some or all of your principal invested in the structured product, regardless of any market risk reduction feature.

As explained in the section entitled "Other factors to consider" on the pages to follow, a structured product with more favorable terms than an otherwise comparable structured product, such as a relatively greater market risk reduction feature, does not necessarily indicate that the structured product with more favorable terms is less risky or that it has a greater likelihood of a return of principal at maturity.

Please note that certain structured products may not have a market risk reduction feature, in which case your principal is exposed to any decline in the value of the underlying asset. As previously noted, before investing in a structured product, you should carefully consider and understand the level of downside market exposure, if any, as well as the credit quality of the issuer.

Call features
A structured product may contain a call feature that can result in the investment being redeemed earlier than the stated maturity date. Different types of call features may be exercised at the sole discretion of the issuer (issuer callable) or may be exercised automatically (autocallable) if a specified, predetermined condition occurs.

If a structured product is called prior to maturity, the payment you receive will depend upon the stated terms of the investment. If a structured product is called, you may not be able to reinvest the proceeds of the investment in a similar investment with similar risk and return characteristics. You should carefully evaluate this reinvestment risk before you make an investment in a structured product with a call feature.

A structured product that is issuer-callable is more likely to be called at a time when the expected amount payable on the investment at maturity and/or at time of call is greater than the amount payable on a comparable instrument at that time.

A structured product with an auto-call feature is typically called if, on specified observation dates, the underlying asset is the same price as or has appreciated from its trade date closing price. For these types of autocallable investments, the longer they remain outstanding, the less likely it is that they will be automatically called. This is because if the investment is still outstanding, the underlying asset was below its trade date price as of the last observation date and there would be less time remaining to maturity for the underlying asset to recover to or above its trade date price.

Income features
A structured product may pay fixed, contingent or variable interest, or may not pay any interest at all over its term.

If a structured product has a lower stated interest rate than that of a traditional fixed-rate bond, it is generally because that interest rate supplements a potential market-linked payment at maturity. If the structured product has a higher stated interest rate than that of a traditional fixed-rate bond, the investment will usually have some downside market exposure and/or the payment of interest may depend on a specified market condition.

If a structured product pays contingent or variable interest, you may not receive any interest over the term of the investment.

In general, the higher the interest rate for a structured product as compared to the yield payable on the issuer's traditional fixed-rate bond with a similar maturity, the greater the risk of missing any contingent or variable-rate interest payments that may apply, of receiving no market-linked return at maturity and/or of incurring a loss at maturity, depending on the terms of the investment.

Before investing in a structured product, you should fully understand whether or not the investment pays interest over its term and, if there are interest payments, how the interest is calculated and under what circumstances it accrues and is paid.

Other features
A structured product may contain a number of other features that can affect the return potential at maturity. Before investing in a structured product, you need to fully understand all of the features applicable to the investment and consider any risks associated with such features.

For more information, please review the specific offering documents for a description of any maximum return, market risk reduction, call or other features as well as a description of any potential interest payments.

Factors that affect valuation before maturity

Generally, structured products are designed to be held to maturity. However, you should be aware that the value of your structured product at any time prior to maturity may be more or less than your initial investment. It may also be substantially different than the payment you expect to receive at maturity, as the valuation of the investment prior to maturity will be impacted by a number of market factors. Because the payment on a structured product is economically similar to a combination of bonds and options, the factors that impact the value of bonds and options also impact the value of a structured product.

Some of the factors that affect the value of a structured product before maturity may include:
– The performance of the underlying asset
– Changes in expected volatility of the underlying asset
– Changes in interest rates
– Changes in the issuer's creditworthiness
– Changes in dividends and distributions
– The time remaining to maturity
– Structured product fees

While these factors may influence the value of an investment before maturity, the payment the issuer makes at maturity is determined by the performance of the underlying asset and the payout formula of the investment.

Performance of the underlying asset
The performance of the underlying asset will affect the value of a structured product prior to maturity. However, the full impact of the performance of the underlying asset—along with the effect of any market risk reduction features—will not be experienced until the maturity of the investment. It is also possible that other factors influencing the value of the investment may counteract the performance of the underlying asset before maturity. Therefore, the change in value of a structured product before maturity may lag, lead or be inverse to the performance of the underlying asset.

Changes in volatility
Volatility represents the frequency and magnitude of the changes in the price of the underlying asset. Before maturity, changes in the expected volatility of the underlying asset can impact the value of different structured products in different ways. Your Financial Advisor can help you understand how changes in volatility may influence the value of a particular structured product before maturity.

Interest rates
Generally, as market interest rates rise, the value of the structured product will tend to decline. Conversely, as market interest rates fall, the value of the structured product will tend to rise. However, this relationship may not always apply, and may have no bearing on some structured products. Your Financial Advisor can help explain how changes in interest rates may impact the value of a particular structured product before maturity.

Creditworthiness of the issuer
Because any payment on a structured product, including any market risk reduction feature, is an obligation of the issuer and depends on the issuer's ability to pay its obligations when due, any change in the creditworthiness of the issuer will affect the value of the structured product before maturity. If an issuer's creditworthiness declines, the value of the structured product may be negatively impacted. If an issuer's creditworthiness improves, the value of the structured product may be positively affected.

Dividends and distributions
Structured products typically do not pass through or reinvest any dividend or distribution that may be paid to direct holders of the underlying asset. Therefore, if the dividend or distribution on the underlying asset increases, it becomes less attractive to own the structured product as compared to directly owning the underlying asset. This will negatively affect the value of the structured product.

Time remaining to maturity
The opportunity for the underlying asset to generate a positive (or negative) return diminishes over the term of the structured product. The greater the time remaining until maturity on the structured product, the greater

the likelihood of a large movement in the value of the underlying asset. As a result, the value of the structured product will be affected simply by the passage of time.

Structured product fees and costs

Structured product fees and costs are usually embedded in the price of the investment, so that immediately after issuance, the investment is worth less than the issue price of the investment (by the amount of the fees and costs). The initial value of a structured product, less fees and costs, is estimated and disclosed by issuers on the cover page of the prospectus for SEC registered offerings. Investors can use the difference between the issue price and the estimated value to determine the approximate total fees and costs associated with the investment. The price you may receive for your structured product if you sell before maturity may be negatively impacted by the fees and costs embedded in the investment.

Other factors to consider

In addition to the factors already discussed, there are additional risks and considerations that may apply to structured products. Other factors you should consider before investing in structured products include:

- The liquidity of the structured product
- Any early termination events
- Comparisons among structured products
- Comparisons to direct investments
- Tax consequences
- Potential conflicts of interest

Liquidity

Structured products are generally not designed to be actively traded. You should be prepared to hold your structured products to maturity. Unless the relevant offering documents specifically state otherwise, structured products are not listed on any exchange—meaning they are not readily tradable. Typically, if there is any liquidity available for a structured product, it is provided by the issuer of the investment as a service to investors. The issuer is not, however, obligated to provide a liquid secondary market, and you may not be able to sell your investment. If an issuer is making a secondary market for its structured product, it may charge a fee for doing so.

Early termination events

In addition to any call feature, a structured product may also contain other provisions described in the offering documents that allow the issuer to terminate the investment early under specified circumstances. The payout upon such an early termination event may be lower than the payout at maturity would have been.

Comparisons among structured products

When considering whether to invest in a structured product, you may be able to compare the terms of one structured product to another. The terms of similar types of structured products may vary significantly, which can indicate certain risks that are associated with that particular investment.

For example, structured products with more favorable terms than another comparable structured product may indicate that the investment with more favorable terms has a greater risk of loss. This may be because the investment with the more favorable terms is issued by a less creditworthy issuer. Or this may be because the implied volatility of one underlying asset is higher than that of another underlying asset for another structured product. Or this may be for another reason that could result in a greater risk of loss.

Another reason that one structured product may have more favorable terms than another otherwise comparable investment is that the investment with more favorable terms is associated with greater foregone underlying asset dividends. Structured products typically do not pass through or reinvest any dividend or distribution that may be paid to direct holders of the underlying asset. Instead, the expected foregone dividends are generally reflected in the structured product's terms. So, underlying assets with greater expected dividends generally result in structured products with more favorable terms than underlying assets with lower expected dividends. These foregone dividends should also be considered when comparing the return potential of a particular structured product to the return potential of a direct investment in the underlying asset.

Your Financial Advisor can help you understand why the terms of similar structured products may vary and what risks may be indicated by these differences.

Comparison to direct investments

Investing in a structured product is not the same as investing directly in the underlying asset. You should consider the following differences between direct investments before considering an investment in a structured product:

- Structured products bear the credit risk of the issuer of the investment.
- Structured products may have features that alter the risk-return profile of the underlying asset, such as return caps, multipliers and market risk reduction features.
- Structured products may have less liquidity than the underlying asset.
- Structured products typically do not pass through or reinvest any dividend or distribution that is paid on the underlying asset.
- Holders of structured products will not have any voting rights or other rights associated with direct ownership of the underlying asset.

– The tax treatment of an investment in a structured product may be very different from the tax treatment of a direct investment in the underlying asset.

Tax

The tax treatment of many structured products is uncertain. There is only limited guidance available with respect to the tax treatment of structured products in general. The offering documents for the structured product will contain a tax summary describing what the issuer reasonably believes are the potential U.S. federal income tax consequences of investing in the investments, which is based on advice of their tax counsel. However, it is possible for the IRS to assert a different treatment than is described in the offering documents and for you to be negatively affected. Please remember that UBS does not provide tax advice. You should consult with your tax advisors regarding the tax treatment of investing in any structured product.

Potential conflicts

The issuer of a structured product and its affiliates may play a number of roles in the issuance and offering of the investment. The offering documents for the structured product will contain a description of the various roles the issuer and its affiliates may play in connection with the investment. You should understand the various roles of the issuer and its affiliates and be aware of the potential conflicts of interest before considering an investment in structured products.

In addition, the costs and fees embedded in the issue price of a structured product may include selling commissions paid to distributors and structuring and hedging costs of the issuer and its affiliates, which provides an incentive for these parties to sell these types of investments and could lead to a conflict of interest.

Additional information related to offerings linked to the least performing of multiple underlying assets

Certain structured products have a return that is contingent upon the performance of the least performing of multiple individual underlying assets. For these investments, investors will be exposed to the risks related to each underlying asset and poor performance by any one underlying asset will not be offset against any positive performance of another underlying asset. Generally, the greater the number of underlying assets and the lower the correlation among the underlying assets, the greater the risk that at least one underlying asset will decline, resulting in the potential for missed coupon payments, a loss of principal and/or for no positive return at maturity, depending on the terms of the offering.

Additional information related to warrants

A warrant is a type of structured product that, in addition to certain other considerations described in this guide, provides leveraged exposure to the underlying asset. Leverage magnifies the impact of both the potential positive and negative performance of an underlying asset, which results in increased sensitivity to the market risk of the underlying asset both at and prior to maturity.

On one hand, the leverage provided by warrants offers potentially much higher returns than a direct investment in the underlying asset. On the other hand, the leverage provided by warrants can lead to much higher losses and potentially result in the loss of your entire investment. Before investing in a warrant, you should carefully consider your tolerance for market risk and understand that you could lose a substantial portion or all of your initial investment on an accelerated basis. In addition, as with other structured products, if the issuer of your warrant is bankrupt or otherwise unable to pay its obligations as they come due, you could lose some or all of your investment.

Disclosure

Nothing herein constitutes an offer to sell, or the solicitation of an offer to buy, any security or deposit obligation. Structured products are sold only pursuant to approved offering materials.

Investing in structured products involves significant risks. For a detailed discussion of the risks involved in investing in any particular structured product, you must read the relevant offering materials for that investment. Structured products are unsecured obligations of a particular issuer with returns linked to the performance of an underlying asset. Depending on the terms of the investment, investors could lose all or a substantial portion of their investment based on the performance of the underlying asset. Investors could also lose their entire investment if the issuer becomes insolvent. UBS Financial Services Inc. does not guarantee in any way the obligations or the financial condition of any issuer or the accuracy of any financial information provided by any issuer. Structured products are not traditional investments and investing in a structured product is not equivalent to investing directly in the underlying asset. Structured products may have limited or no liquidity, and investors should be prepared to hold their investment to maturity. The return of structured products may be limited by a maximum gain, participation rate or other feature. Structured products may include call features and, if a structured product is called early, investors would not earn any further return and may not be able to reinvest in similar investments with similar terms. Structured products include costs and fees that are generally embedded in the price of the investment. The tax treatment of a structured product may be complex and may differ from a direct investment in the underlying asset. UBS Financial Services Inc. and its employees do not provide tax advice. Investors should consult their own tax advisor about their own tax situation before investing in any securities. Investing in structured products is not suitable *or appropriate* for all clients given their complexity and significant risks.

Unlike traditional bank CDs, structured CDs do not pay fixed interest payments at prevailing market rates or may not pay any interest payments, and they are subject to market risk in addition to interest rate risk if they are sold prior to maturity. The value of a structured CD depends on fluctuations in interest rates and the performance of the specified underlying asset. In addition, the limited secondary market for structured CDs may adversely affect their price if liquidated prior to maturity. Unlike traditional bank CDs, structured CDs may be subject to IRS Treasury regulations that apply to contingent payment debt instruments. You should consider the applicability and limitations of FDIC insurance to an investment in structured CDs.

Important information about brokerage and advisory services.
As a firm providing wealth management services to clients, UBS Financial Services Inc. offers investment advisory services in its capacity as an SEC-registered investment adviser and brokerage services in its capacity as an SEC-registered broker-dealer. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate arrangements. It is important that you understand the ways in which we conduct business, and that you carefully read the agreements and disclosures that we provide to you about the products or services we offer. For more information, please review client relationship summary provided at **ubs.com/relationshipsummary**, or ask your UBS Financial Advisor for a copy.