

Termsheet

27 August 2003

pages 4 (including this page)

subject **UBS STAR IVY (EUR) Certificates**

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| Issuer | UBS Investment Bank AG, Frankfurt am Main |
| Lead Manager | UBS Investment Bank AG, Frankfurt am Main |
| Type | Index Linked Certificate |
| Underlying | UBS STAR Ivy Index (EUR), the 'Index', an Index created on 29 August 2003 and calculated and maintained by Ivy International, LLC, (both the 'Index Sponsor' and the 'Index Calculation Agent'). The Index is composed primarily of hedge funds, together with certain derivative instruments and from time to time cash or money market components (the 'Index Components'), which will be denominated in US Dollars. The level of the EUR denominated Index is based on the performance of the Index Components, less Index Fees (set forth below) plus or minus the returns from converting such performance into EUR. The currency hedging will be regarded as a further Index Component. |
| Closing Date | The initial period for subscription at the Initial Issue Price ends at 12:00pm CET on 26 August 2003 |
| Issue Date | 29 August 2003 |
| Payment Date | 29 August 2003 |
| Maturity | 30 September 2008, extendable at the option of the issuer for additional 5-year periods, on a rolling basis, with a notice period of 180 days. There is no limit to the number of times the issuer may extend the maturity of the Certificates. |
| Currency | EUR |
| Number of Certificates | Up to 250,000 |
| Multiplier | 1 (one certificate represents 1 times the Index) |
| Initial Issue Price | EUR 1,030 (103%) |
| Initial Index Level | 1,000.00 points |

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This document is for information purposes only and should not be construed as an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice. The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the Information Memorandum, Prospectus or other issuer documentation for the issue of the Notes (the "Prospectus").

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No action has been or will be taken in any jurisdiction that would permit a public offering of the securities described herein, save where explicitly stated in the Prospectus. The securities must be sold in accordance with all applicable selling restrictions in the jurisdictions in which they are sold. Not for distribution in the United States or to U.S. persons.

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| Index Calculation | The Index Calculation Agent will calculate and announce on a one-month delayed basis (t + 1) (the 'Index Calculation Date') the level of the Index at the end of the current month (t) (the 'Index Valuation Date'). The level of Index will be calculated according to the following formula: |
| | $\text{Index}(t) = \text{Index}(t-1) * [\text{EUR Value}(t) / \text{EUR Value}(t-1)]$ |
| | Index (t): Closing Level of the Index (EUR) at the end of month(t) |
| | Index (t-1): Closing Level of the Index (EUR) at the end of the previous month(t - 1) |
| | EUR Value(t): The sum of the Weighted Closing Valuations in EUR of the Index Components (incorporating the Index Fees) on Index Valuation Date (t), as calculated by the Index Calculation Agent on the relevant Index Calculation Date |
| | EUR Value(t - 1): The sum of the Weighted Closing Valuations in EUR of the Index Components (incorporating the Index Fees) on Index Valuation Date (t - 1), as previously calculated by the Index Calculation Agent on the relevant Index Calculation Date |
| | Index Fees: A monthly fee of 0.175% of the month end Weighted Closing Valuations will be charged to the Index. This fee will be calculated and applied to the Index on each Index Calculation date. |
| | Weighted Closing Valuations: The last valuation of each Index Component included in the Index as provided by the underlying Index Component managers making up the Index to the Index Calculation Agent on or before the relevant Index Calculation Date multiplied by their respective weights on the relevant Index Valuation Date |
| Final Redemption Amount | $[\text{Index}(\text{final}) / \text{Index}(\text{initial})] * \text{Multiplier} * 1000$ |
| | Index(final): The level of the Index at the Maturity Date as calculated by the Index Calculation Agent and published by the Certificate Agent based on the valuation of each Index Component included in the Index multiplied by their respective weights on the Maturity Date. Whilst this is expected to occur sooner, it may be any time up to 16 calendar months following the Maturity Date. |
| | Index(Estimated Final): The Index Calculation Agent will calculate an estimate of the Index(Final) 'Index(Estimated Final)' on the Index Calculation Date relating to the Maturity Date (an Index Valuation Date). This estimate will be based on the last official valuation of each Index Component included in the Index, as provided by the underlying Index Component managers making up the Index, to the Index Calculation Agent, on or before the relevant Index Calculation Date, multiplied by their respective weights on the Maturity Date. |
| Settlement of Final Redemption Amount | The Final Redemption Amount will be transferred according to the following schedule |
| | 90% as calculated based on the Index(Estimated Final) will be transferred within 15 Banking days following the Index Calculation Date relating to the Maturity Date. The balance [being the difference between the amount calculated based on 100% of the Index (Final) |

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| | and the amount calculated based on 90% of the Index (Estimated Final)] will be transferred within 10 Banking days following the calculation of the Index(Final). |
| Issuer Early Redemption | At the option of the Issuer in full. |
| | Quarterly, based on the level of the Index as at the calendar-quarter end, subject to 65 days notice being given prior to the relevant calendar-quarter end (the 'Early Maturity Date'). |
| Early Redemption Amount | $[\text{Index(ER)} / \text{Index(initial)}] * \text{Multiplier} * 1000$ |
| | Index(ER): For an Early Redemption, the Index (ER) will be the level of the index, calculated on the same basis as Index (Final) was calculated for Final Redemption at Maturity. |
| Settlement of Early Redemption Amount | Settlement will be on the same terms as were applicable for Final Redemption at Maturity. |
| Listing | Frankfurt (Freiverkehr) |
| Business Days | Frankfurt, London and New York |
| Banking Days | Day on which TARGET and New York are open and Clearstream settle payments. |
| Legal Form | Up-to Global Certificate deposited with Clearstream Banking, Frankfurt am Main |
| Liquidity | Daily bid/offer depending on size and market conditions |
| Governing Law | German |
| Selling Restrictions | US persons (see section on selling restrictions set forth in the Offering Memorandum). |
| Settlement | Euroclear/Clearstream |
| Security Number | WKN 169787, ISIN DE0001697878, Common Code 17515519, Valoren 1662474 |
| Minimum Trading Size | 1 Certificate |
| Index Sponsor | Ivy International, LLC |
| Index Calculation Agent | Ivy International, LLC |
| Certificate Agent | UBS Investment Bank AG, Frankfurt am Main |
| Risk Information | <p>This product does not represent a share in an investment fund and thus is not subject to the supervision of the Swiss Federal Banking Commission (Eidgenössische Bankenkommision). Therefore, investors in the Certificates are not eligible for the specific investor protection under the Swiss Federal Law on Investment Funds. The proceeds of these Certificates will be used for general corporate purposes and will not be used in Switzerland.</p> <p>This product is a high-risk investment instrument, as the Certificate holder is neither entitled to redemption of the capital invested nor to payment of interest or dividends. Any payments to be made on the Certificates depend primarily on the value of the UBS STAR IVY Index (EUR), which will in turn depend on the future development of the value of the components of the Index (the "Index Components"). In particular, neither UBS AG, UBS Investment Bank AG, Frankfurt am Main, nor Ivy International, LLC, assume any responsibility vis-à-vis the holders of Certificates for the economic success or lack of success of an investment in the Certificates or for the performance of the Index Components or the activities of the Index Sponsor.</p> <p>For additional risk information, please consult the Offering Memorandum.</p> |

Issuer Contacts Risk Management Products, AIS Group, UBS Investment Bank, London +44 20 7568 4190

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Structured actions are complex and may involve a high risk of loss. Prior to entering into a transaction you should consult your own legal, regulatory tax, financial and accounting advisors to the extent you consider it necessary, and make your own investment, hedging and trading decisions (including decisions regarding the suitability of this transaction) based upon your own judgement and advice from those advisors you consider necessary. Save as otherwise expressly agreed, UBS is not acting as your financial advisor or fiduciary in any transaction.

This document is for information purposes only and should not be construed as an offer, recommendation or solicitation to conclude a transaction and should not be treated as giving investment advice. The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the Information Memorandum, Prospectus or other issuer documentation for the issue of the Notes (the "Prospectus").

In connection with the offer and sale of the Certificates, the Issuer may, in individual cases, directly or indirectly, pay fees in varying amounts to third parties, e.g., asset consultants (including UBS AG). Further information is available from the Issuer on request.

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No action has been or will be taken in any jurisdiction that would permit a public offering of the securities described herein, save where explicitly stated in the Prospectus. The securities must be sold in accordance with all applicable selling restrictions in the jurisdictions in which they are sold. Not for distribution in the United States or to U.S. persons



UBS Investment Bank AG
Frankfurt am Main

Private Placement Memorandum

dated 29 August 2003
for

250,000 UBS STAR IVY (EUR) Certificates

with no par value
at an initial issue price of Euro 1,030 per UBS STAR IVY (EUR) Certificate

WKN 169787
ISIN DE0001697878
Common Code 17515519
Valor 1662474

linked to the

UBS STAR IVY Index (EUR)

an index which is created, managed and calculated by

Ivy International, LLC
New York

The distribution of this Private Placement Memorandum (the "**Memorandum**") and the offer of the UBS STAR IVY (EUR) Certificates (the "**Certificates**") may be restricted under the laws of certain jurisdictions. Persons who are in possession of this Memorandum must comply with all applicable restrictions. This Memorandum does not constitute an offer to sell or a solicitation of an offer to purchase any securities, and may not be used for the purpose of making any such offer or solicitation in any jurisdiction in which such offer or solicitation is not permitted.

In connection with the issue or the sale of the Certificates, no person is entitled to give any information or to make any representations which are not contained in this Memorandum. If any such information or representations are given or made, they will not be based on an authorisation by UBS Investment Bank AG, Frankfurt am Main, (the "**Issuer**"). Neither the delivery of this Memorandum nor the sale of the Certificates excludes the possibility that additional risks and risks unknown at the date of this Memorandum may arise. Material changes will be published in a supplement in accordance with § 11 German Securities Sales Prospectus Act (Wertpapier-Verkaufsprospektgesetz).

The Certificates may be offered, sold and repurchased by the Issuer at such times and at such prices as the Issuer may, in its discretion, determine. Certificates may be offered or sold from time to time in one or more transactions, in the over-the-counter-market or otherwise, in the discretion of the Issuer. The Issuer is not obliged to purchase or to sell any Certificates, and there can be no assurance that any market for the Certificates will exist.

A more detailed description of the offer, sale and delivery of the Certificates is contained under "General Information" in this Memorandum.

Any reference contained herein to Euro, EUR or € refers to the legal currency of the participants of the European Currency Union, and USD, US\$ or Dollars refers to the legal currency of the United States of America.

General Risk Statement

The Certificates offered pursuant to this Memorandum are high risk securities. **The holders of Certificates (the "Certificate Holders") have no claim for repayment of their invested capital or for the payment of any interest or dividends.** Any payment made on the Certificates will depend on changes in the level of the UBS STAR IVY Index (EUR) (the "**Index**") from the date the Certificates are issued through the Maturity Date or Early Maturity Date.

Changes in the level of the Index will depend on the future performance of various hedge funds or so-called alternative investments (the "**Hedge Funds**"), various liquidity strategies, an exchange-rate hedging strategy, administrative expenses, the costs of hedging certain market exposures and, from time to time, cash or money market investments (collectively, the "**Index Components**"). In particular, neither UBS Investment Bank AG nor Ivy International, LLC (hereinafter also referred to as the "**Index Sponsor**" or the "**Index Calculation Agent**") assume any responsibility vis-à-vis the Certificate Holders for the economic success or lack of success of an investment in the Certificates, or the performance of the Index Components. In addition, UBS Investment Bank AG assumes no responsibility for the activities of the Index Sponsor, and the Index Sponsor assumes no responsibility for the activities or creditworthiness of UBS Investment Bank AG. Due to the special features of the Index Components, the Issuer is also of the opinion that prospective investors should make themselves familiar with the typical risks of losses involved in forward exchange transactions before investing in the Certificates.

UBS STAR IVY (EUR) Certificates do not represent shares in an investment fund and thus **are not registered with, or subject to the supervision of, the Swiss Federal Banking Commission (*Eidgenössische Bankenkommision*)**. Therefore, investors in the Certificates are not eligible for the specific investor protection under the Swiss Federal Law on Investment Funds.

THE CERTIFICATES ARE ONLY SUITABLE FOR INVESTORS WHO HAVE CONSIDERED THE INFORMATION AND INDICATIONS GIVEN IN THIS MEMORANDUM, IN PARTICULAR THE "RISK FACTORS" SET FORTH BELOW.

UBS STAR IVY (EUR) CERTIFICATES

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General Information

Responsibility

UBS Investment Bank AG, Frankfurt am Main, herewith assumes the responsibility for the contents of this Memorandum. The Issuer declares that according to its knowledge the information contained in this Memorandum is correct and that no substantial circumstances have been omitted.

Ivy International, LLC assumes no responsibility for the contents of this Memorandum except for information contained in the section "Index Description" on pages 26 – 36 (including) of this Memorandum.

Issue

The Certificates offered pursuant to this Memorandum will be issued by UBS Investment Bank AG at an initial issue price of Euro 1,030 (including a premium of Euro 30) per Certificate.

Offer and Sale

General

The Certificates will be offered on a private placement basis by UBS Investment Bank AG to a restricted number of persons commencing on or after

29 August 2003

at an initial issue price of Euro 1,030 (including a premium of Euro 30) per Certificate. The initial issue price for the Certificates is payable to UBS Investment Bank AG. Thereafter, the Certificates will be sold based on offer prices continuously adjusted according to market conditions.

In connection with the offer and sale of the Certificates, the Issuer may, in individual cases, directly or indirectly, pay fees in varying amounts to third parties, e.g., asset consultants (including UBS AG).

The Certificates may only be offered or sold in accordance with the provisions of applicable law in each relevant jurisdiction.

Offer and Sale in Specific Jurisdictions

The Certificates will be offered in Germany on a private placement basis in accordance with section 2 No. 2 of the German Securities Sales Prospectus Act (Wertpapier-Verkaufsprospektgesetz). The Issuer has not undertaken any measures in any jurisdiction which would make permissible a public offer of the Certificates or the possession or distribution of this prospectus in any jurisdiction in

which the public offer of the Certificates or the possession or distribution of this Memorandum is subject to any restrictions. It is, however, not excluded that the Issuer will in the future undertake any such measures in respect of various jurisdictions.

The Certificates have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), nor are they offered under the procedures required under the U.S. Commodity Exchange Act of 1936, as amended, for sales to U.S. persons. The Certificates may not be offered, sold or delivered within the United States of America or to the account or benefit of any person in the United States of America within the meaning of Regulation S under the Securities Act, or to any person acting on a non-discretionary basis for any person in the United States of America. The Certificates may not be redeemed or paid-off by or for the benefit of a U.S. person within the meaning of Regulation S.

The Certificates are not to be offered or sold prior to or during the period of six months from the date of the issue to persons in the United Kingdom of Great Britain and Northern Ireland (the "**United Kingdom**") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which do not result in an offer to the public in the United Kingdom within the meaning of the United Kingdom Public Offers of Securities Regulations 1995. Any offeror of Certificates shall only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of any Certificates in circumstances in which section 21 (1) of FSMA does not apply to the Issuer. Any offeror of Certificates shall comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Certificates in, from or otherwise involving the United Kingdom.

Maturity

The Maturity Date of the Certificates is 30 September 2008. The Issuer has the option to extend the maturity of the Certificates for additional five-year periods, on a rolling basis, by giving not less than 180 calendar days notice prior to each such Maturity Date.

Early Redemption

The Issuer may cause the Early Redemption of all but not of some of the Certificates as of the end of a calendar quarter (the "**Early Maturity Date**") by giving notice not less than 65 calendar days prior to the last day of such calendar quarter.

Index Fees

The "**Index Fees**" are applied to the EUR Value of the Weighted Closing Valuations of the Index Components and equal to 2.10% per annum of the month end Weighted Closing Valuations of the Index Components. This fee will be calculated and applied to the Index on each Index Calculation Date as described in more detail in the Index Description below.

Global Certificate

The Certificates will, for the entire duration of the issue, be represented by one or more permanent global bearer certificate(s) which will be deposited with Clearstream Banking AG, Frankfurt am Main (the "**CSB**"). Any claim for the delivery of definitive Certificates is excluded. The Certificates shall be transferred in accordance with applicable rules of the CSB.

Use of Net Proceeds

The net proceeds of the issue of the Certificates will be used by the Issuer for general corporate purposes and will not be used in Switzerland.

Paying Agent

UBS Investment Bank AG, Frankfurt am Main, Germany, is the Paying Agent.

Certificate Agent

UBS Investment Bank AG, Frankfurt am Main, Germany, is the Certificate Agent.

Listing

The Certificates will be listed on the Frankfurt Stock Exchange (Freiverkehr). Still, it is not certain that an active secondary market in the Certificates will develop. The Issuer intends, under normal market conditions, to regularly quote bid/ask prices for the Certificates. Still, the Issuer assumes no legal obligation vis à vis the Certificate Holders to provide a market for the Certificates or with regard to the level of such prices nor how they are effected.

Availability of Documents

This Memorandum, the documents referred to herein relating to the Issuer as well as the business reports of the Issuer may be inspected at or obtained free of charge from UBS Investment Bank AG, Stephanstrasse 14-16, D-60313 Frankfurt am Main.

Security Identification Codes

| | |
|-------------|--------------|
| WKN | 169787 |
| ISIN | DE0001697878 |
| Common Code | 17515519 |
| Valor | 1662474 |

PRIOR TO AN INVESTMENT IN THE CERTIFICATES, POTENTIAL INVESTORS ARE ADVISED TO CONSIDER THE INFORMATION AND IN PARTICULAR THE SUBSEQUENT RISK FACTORS CONTAINED IN THIS MEMORANDUM. ANY OF THESE CAN NEGATIVELY AFFECT THE PERFORMANCE OF THE CERTIFICATES. FURTHERMORE, ADDITIONAL RISK FACTORS WHICH AT THE DATE OF THIS MEMORANDUM ARE UNKNOWN OR CONSIDERED INSIGNIFICANT CAN NEGATIVELY AFFECT THE PERFORMANCE OF THE INDEX.

Risk Factors

The Certificates

Return on the Certificates Dependent Upon Performance of the Index

The Certificates offered pursuant to this Memorandum are **particularly high-risk investments**, as, in contrast to many other forms of investments, they do not provide **any right for repayment of the capital invested**. If the level of the Index declines from the date of issuance, the Certificate Holder will receive back on the Maturity Date or Early Maturity Dates less than his original investment. Moreover, the Certificates **do not give rise to any claims for payment of interest or dividends**. Whether and in what amount payments are made on the Certificates depends on the future level of the Index, while the Index itself is based principally on the performance of various Hedge Funds, as well as an Euro/USD exchange-rate hedging component. The value of the Certificates can rise as well as fall, and no guarantee whatsoever is given as to their performance. Should the Index Components not perform favourably, Certificate Holders will incur a **partial or total loss of the capital invested**.

Exchange-Rate Considerations

The Hedge Funds will be denominated almost exclusively in US-Dollars, although they may trade certain instruments denominated in other currencies. Consequently, the Hedge Funds themselves will incur certain exchange-rate risks and hedging costs in their trading.

As the Hedge Funds will be denominated almost exclusively in US-Dollars, a material Index Component for the Certificates will be the programme for hedging the Euro/USD exchange-rate risk. The Index Sponsor will, to the extent it deems appropriate, hedge these risks pursuant to Euro Hedging Arrangements, to the extent described under "Index Description". The Index Value will be increased or decreased, as the case may be, by any income, loss, costs and expenses attributable to the currency conversions and any Euro Hedging Arrangements. The Euro Hedging Arrangements make a reasonable attempt to offset, but not eliminate, the Euro/U.S. Dollar exposure of the Index, resulting from substantially all other Index Components being U.S. Dollar-denominated.

The level of the Index and the return to the investors could be adversely affected not only by hedging costs and changes in exchange rates, but also by local exchange control regulations and other limitations, including currency exchange limitations and political and economic developments in the relevant countries.

Solvency of the Issuer

The Certificate Holders are taking the credit risk of UBS Investment Bank AG as the Issuer. The Certificates are direct, unsubordinated, unconditional and unsecured obligations of UBS Investment Bank AG and rank equally with all other present and future direct, unsubordinated, unconditional and unsecured obligations of UBS Investment Bank AG, other than obligations preferred by mandatory provisions of law. The insolvency or financial distress of the Issuer could lead to a partial or total loss of the capital invested by the Certificate Holders, irrespective of increases in the level of the Index.

Fees and Expenses

Fees and expenses will be paid on the level of the various Hedge Funds and/or Funds of Funds to their managers and advisers as well as calculated on the level of the Index Sponsor. These will result in a reduction in the level of the Index.

Liquidity of Certificates

The Issuer intends, under normal market conditions, to regularly quote bid/ask prices for the Certificates. Still, the Issuer assumes no legal obligation vis à vis the Certificate Holders with regard to the level of such prices nor how they are effected. The Issuer is under no legal obligation to provide a daily market for the Certificates and it is not certain that an active secondary market will develop. The Issuer will make reasonable endeavours to encourage the development of such a market. Nevertheless, Certificate Holders might not be able to readily sell the Certificates.

Extraordinary Market Conditions

In the event of extraordinary market conditions, the spread between bid/ask prices may widen and the bid quotes/prices of the Certificates may decrease significantly and may be substantially below the value of the Certificates based on the level of the Index.

Tax Risks

In the opinion of the Issuer, the Certificates are not eligible as capital claims within the meaning of section 20, subparagraph 1, No. 7 of the German Income Tax Act ("EStG"). Therefore, any income

of Certificate Holders from the redemption or sale of their Certificates is generated on a level, which, subject to section 23 EStG, is irrelevant for tax purposes. However, there can be no assurance that the Fiscal Authorities will not apply section 20, subparagraph 1, No. 7 EStG. As the Hedge Funds are mainly resident in so-called offshore jurisdictions, which have not entered into any double taxation conventions with other countries, any income of the Hedge Funds may be subject to taxation in the countries of origin. As such withholding taxes are non-deductible due to the fact that such Hedge Funds are not subject to income taxation in their countries of residence, this results in a reduction of the net income of the Hedge Funds and may have a negative impact on the performance of the Index.

The considerations concerning the taxation of the Certificates set forth in this Memorandum reflect the opinion of the Issuer on the basis of the legal situation identifiable as of the date hereof. However, a different tax treatment by the Fiscal Authorities and Tax Courts cannot be precluded. In addition, the tax considerations set forth in this Memorandum cannot be the sole basis for the assessment of an investment in the Certificates from a tax point of view, as the individual circumstances of each investor also have to be taken into account. **Therefore, the tax considerations set forth in this Memorandum are not to be deemed any form of definitive information or tax advice or any form of assurance or guarantee with respect to the occurrence of certain tax consequences.** Each investor should seek the advice of his or her personal tax consultant before deciding whether to purchase the Certificates.

The Index Sponsor assumes no responsibility for the tax consequences of an investment in the Certificates.

Early Redemption and Extension of Maturity at the Option of the Issuer

According to the Terms and Conditions of the Certificates, the Issuer has the option to redeem the Certificates, as an entirety, prior to the Maturity Date (30 September 2008) or to extend the maturity of the Certificates for further periods of five years for an unlimited number of times. If the Issuer opts to redeem the Certificates prior to the Maturity Date, the Certificate Holder will have the right to payments in respect of Early Redemption but no claim for any additional payments on the Certificates through the Maturity Date.

Redemption

The Certificate Holders will receive their Final Redemption Amount or, in the event of an Early Redemption, their Early Redemption Amount in two payment tranches as outlined in Section 4 (1) of the Terms and Conditions of the Certificates. The Certificate Holders have no claim for any interest on the Final Redemption Amount or on the Early Redemption Amount, as the case may be, of the Certificates during the period from any redemption date until final payment.

Possible Suspension or Deferral of Index Valuations and Payment of Redemption Amounts

Each of the Hedge Funds which will serve as Index Components have the authority to suspend or defer the valuation and/or the payment of redemption proceeds under unusual or extraordinary circumstances. In such event, the Index Sponsor may be unable to eliminate or reduce the weightings given to one or more Index Components on a timely basis. This could cause the Issuer to be unable to make payments on the Certificates on schedule, and, therefore, to temporarily suspend or defer the Maturity Date or any Early Maturity Date with respect to the Certificates as well as the payments due in respect of any such Date.

Deviations between Quotes/Prices and the Index Level

The quotes (*Kurse*) for the Certificates as fixed on the stock exchange, as well as the buying and selling prices of the Certificates in over-the-counter trading, may deviate significantly from the value of the Certificates as indicated by the level of the Index. Therefore, Certificate Holders who wish to sell their Certificates on the stock exchange or in over-the-counter trading might sell at a price considerably lower than the price based on the actual Index level prevailing at the time of their sale.

Portfolio Valuation Adjustments

The Index Components will generally be valued in accordance with the relevant Hedge Funds' constituent documents. These valuations typically will be provided by the manager of each Hedge Fund based on interim unaudited financial information, and will be estimated figures subject to possibly material upward or downward adjustments. Adjustments to these valuations will cause the level of the Index to change. As a consequence, the quotes as well as the selling or buying prices of the Certificates may be lower or higher than the value of the Certificates based on the level of the Index.

Numerous Index Components

The Index is composed of numerous Index Components. The number of Hedge Funds included as Index Components is expected to be no less than 25 at any given time. Despite the fact that Index Component diversification is designed to help to control declines in Index levels while, at the same time, maintaining the possibility of the Index increasing substantially over time, it cannot be guaranteed that the use of multiple different Index Components will not result in overall losses. The Hedge Funds invest wholly independently of one another and may at times hold economically offsetting positions. To the extent that the Hedge Funds do, in fact, hold such positions, the Index, considered as a whole, cannot rise. Moreover, it may happen that various Hedge Funds included as Index Components compete for the same positions in the markets.

There can be no guarantee that the selection of multiple Hedge Funds will be more successful than

the selection of one single Hedge Fund.

Non-Disclosure of Index Components

The Index Sponsor will not disclose the Index Components (other than Exchange-Rate Hedging and expenses). This is common practice in the alternative investment industry in order to protect proprietary information as well as to avoid possibly impeding certain Hedge Funds' ability to implement their strategies.

General Risks

General Economic Conditions

The success of any investment activity is affected by general economic conditions, which may affect the level and volatility of interest rates and the extent and timing of investor participation in the markets for both equities and interest-rate sensitive instruments. Unexpected volatility or illiquidity in the markets in which the Index Components (directly or indirectly) hold positions could cause the Index to decline.

Lack of Operating History of the Index

The Index is to be created on 29 August 2003. Accordingly, as at the date of this Memorandum the Index has never been used before, and there is no history on which to evaluate its likely performance. The past performance of the Index Sponsor's investment funds (which generally do not reflect exchange-rate hedging costs or the same fee levels as the Index Fees) is not necessarily indicative of the future prospects for the Index, despite such funds having positions in a number of the Hedge Funds which will be included as Index Components.

Recently-Formed Index Components

Certain of the Hedge Funds may be formed only shortly before they become Index Components and will have no meaningful operating history.

Absence of Regulatory Oversight of Hedge Funds

The Hedge Funds will generally not be registered as investment companies under the laws of any country or jurisdiction. As a result, certain protections of such laws (which, among other things, may require investment companies to have disinterested directors, require securities to be held in custody and segregated, regulate the relationship between the investment company and its advisor and mandate investor approval before fundamental investment policies may be changed) do not

apply to such Hedge Funds. This may adversely affect the performance of such Hedge Funds as Index Components.

Lack of Influence by the Issuer

The composition of the Index is determined by the Index Sponsor. The Issuer has no influence over the selection of the Index Components. In addition, the Index Sponsor will be responsible for the Euro/USD Exchange-Rate Hedging Index Component. The Issuer will have no control over the method, cost or extent of such hedging.

Suspensions of Trading

Securities and commodities exchanges typically have the right to suspend or limit trading in any instrument traded on such exchanges. A suspension could render it impossible for a Hedge Fund to liquidate positions, causing the Hedge Fund to incur losses and resulting in a decline in the Index.

Lack of Liquidity in Markets

Despite the heavy volume of trading in securities and other financial instruments, the markets for some securities and other financial instruments have limited liquidity and depth. This could be a disadvantage to the Hedge Funds, both in the realisation of quoted prices and in the execution of orders at desired prices, resulting in a decline in the Index.

In 1998 the international financial markets experienced a "liquidity crisis". For a substantial period of time, there was little or no market for many fixed income securities (other than U.S. Treasury securities) of the type often held long by Hedge Funds. There can be no guarantee that these or similar conditions (i) will not occur in the future or (ii) will not have a similar negative impact on Hedge Funds in the future, causing a decline in the Index.

Institutional Risk

Institutions, such as brokerage firms, banks or investment funds, will have custody of the Hedge Funds' underlying assets. Often these assets will not be registered in the Hedge Funds' names. Bankruptcy or fraud at one of the institutions with which the Hedge Funds trade could impair the operational capabilities or the capital position of the Hedge Funds. The Index Sponsor has no control over the institutions with which the Hedge Funds enter into transactions.

No Limitation on the Hedge Funds' Investments

There are no material restrictions on the instruments into which the Hedge Funds can invest. These instruments include, among others: shares, securities, currencies, commodities, derivatives and other

direct or indirect investments.

U.S. Banking Regulation

The Issuer and its affiliates might be subject to certain U.S. banking laws and to regulation by the Board of Governors of the U.S. Federal Reserve System (the "**Board**"). These banking laws, rules, regulations and guidelines and the interpretation thereof by the staff of the Board and of other U.S. jurisdictional regulatory and supervisory agencies may impose restrictions on the Index Sponsor with respect to the investment in Hedge Funds that may be selected as Index Components.

Impact of Various Accounting Scandals

A number of Hedge Funds have incurred substantial losses due in part to accounting irregularities - including alleged criminal conduct of senior officers - at certain major companies which contributed to these hedge funds miscalculating the financial status of these issuers. There can be no assurance that additional losses of this nature will not occur.

The Index Components

Dependence on the Index Sponsor and Hedge Fund Managers

The success of the Index depends upon the Index Sponsor selecting successful Index Components, as well as on the Hedge Fund managers implementing investment strategies that achieve the Hedge Funds' respective investment objectives. There can be no assurance that either the Index Sponsor or the Hedge Fund managers will be able to do so. In particular, subjective (as opposed to systematic) decisions made by the Index Sponsor and a Hedge Fund manager may cause the Index to decline (or not to increase) in a manner which less subjective decision making might have avoided.

Reliance on Key Individuals

If the Index Sponsor should lose the services of certain key personnel, the Index Sponsor's ability to perform its responsibilities might be impaired.

The success of each Hedge Fund is dependent on the expertise of its manager. The loss of one or more individuals could have a material adverse effect on the ability of a manager to direct a Hedge Fund's portfolio, resulting in losses for such Hedge Fund and a decline in the Index. Indeed, certain of the Hedge Fund managers have only one principal, without which such manager could not continue to operate.

Emerging Investment Managers

Certain Hedge Funds may be managed by investment managers which have managed hedge funds for a relatively short period of time ("**Emerging Investment Managers**"). The previous experience of Emerging Investment Managers is typically in trading proprietary accounts of financial institutions or managing unhedged accounts of institutional money managers or other investment firms. Because Emerging Investment Managers do not have direct experience in managing Hedge Funds, including experience with financial, legal or regulatory considerations unique to Hedge Fund management, and there is generally less information available than in the case of established managers on which to base an opinion of such Managers' investment and management expertise, investments with Emerging Investment Managers may be subject to greater risk and uncertainty than investments with more experienced Hedge Fund managers.

Possibility of Fraud and Other Misconduct

There is a risk that a Hedge Fund manager could divert or abscond with a Hedge Fund's assets, fail to follow agreed-upon investment strategies, provide false reports of operations or engage in other misconduct. The Hedge Funds included as Index Components are generally private, and their securities or investment advisory operations are generally not subject to regulatory review under any applicable laws.

Misuse of Confidential Information

In recent years, there have been a number of widely reported instances of violations of securities laws through the misuse of confidential information. Such violations may result in substantial liabilities for damages caused to others, for the disgorgement of profits realised and for penalties. Investigations and enforcement proceedings are ongoing, and it is possible that certain Hedge Funds included in the Index may be charged with involvement in such violations. If that were the case, the performance records of these Hedge Funds could be misleading. Furthermore, if a Hedge Fund has engaged in the past or engages in the future in such violations, such Hedge Fund could be exposed to material losses, with an adverse effect on the level of the Index.

Changes in Allocations

The Index Sponsor expects from time to time to rebalance the Index, as well as delete or add Hedge Funds as Index Components. These changes will be made in the Index Sponsor's discretion. Among other reasons, rebalancing is likely to occur as the result of (a) performance differences among Hedge Funds and/or (b) issuances of additional Certificates during periods when certain Index Components may no longer be accepting additional funds (for example, because of capacity restrictions). In that case, the Index will need to be rebalanced among those Hedge Funds (if any)

accepting additional funds, increasing the percentage of the Index Components allocated to such "open" Hedge Funds and decreasing the percentage which is allocated to "closed" Hedge Funds, even if the Index Sponsor would not otherwise have made such Index Component allocations.

Performance-Based Compensation Arrangements

The performance-based compensation paid to the Hedge Fund managers is calculated on a basis that includes unrealised appreciation, and may consequently be greater than if such compensation were based solely on realised gains. Such unrealised appreciation is also calculated before adjusting the Index for the Exchange-Rate Hedging Index Component.

Each Hedge Fund calculates its own performance compensation based on its individual performance, irrespective of increases in the Index's overall level. Furthermore, when the Index is rebalanced and an unprofitable Hedge Fund is removed as an Index Component, the loss carryforward generated by such Hedge Fund's trading is eliminated and has no effect on calculations of subsequent performance compensation due to the Hedge Fund managers of any replacement Index Components. Thus, there may be substantial incentive compensation due to the Hedge Fund managers even during a period when the Index is incurring significant losses.

Portfolio Concentration

Because most of the Hedge Funds have the authority to concentrate their investments in securities of a single issuer or industry, the overall adverse impact on one or more Index Components, and on the Index, of adverse movements in the value of such securities could be considerably greater than if the Hedge Funds were not permitted to concentrate their investments. Moreover, a number of Hedge Funds included as Index Components might accumulate substantial positions in the same or related instruments at the same time. Because information regarding the actual investments made by such Hedge Funds is generally unavailable, the Index Sponsor will be unable to identify any such accumulations, which could expose the Index to the risk of sudden and severe declines.

Borrowings/Leverage

The Hedge Funds may borrow without limitation and typically utilise various lines of credit and other forms of leverage. In addition, certain of the Hedge Funds' investment strategies (primarily those utilising derivative instruments) may involve indirect forms of leverage. While leverage presents opportunities for increasing a Hedge Fund's total return, it increases the potential risk of loss as well. Any event which adversely affects the value of an investment by a Hedge Fund is magnified to the extent that such investment is leveraged. Leverage can have a similar effect on issuers in which the Hedge Fund invests. The use of leverage by the Hedge Funds could result in substantial losses which would be greater than if leverage had not been used. A Hedge Fund's assets may be further leveraged or hedged by the use of derivatives. In addition, investments of a Hedge Fund may

include investments in partnerships and other pooled investment vehicles which themselves employ leverage to a significant extent. Such investments are subject to the same leverage risks as described above, and a Hedge Fund could lose its entire investment.

As a general matter, the banks and dealers that provide financing to Hedge Funds can apply essentially discretionary margin, haircut, financing and security and collateral valuation policies. Changes by banks and dealers in these policies may result in large margin calls, loss of financing and forced liquidations of positions at disadvantageous prices.

The Index Sponsor's management of the Index may include borrowings incurred in the course of such management. Any such borrowings would result in interest expense, in addition to increased risk of declines in the Index due to increased market exposure.

Strategy Risks

Long-Term Strategies

Certain of the strategies used by the Hedge Funds involve the acceptance of short-term losses in an attempt to achieve higher long-term profit. This may negatively influence the value of these Index Components during the limited period of time that the Certificates are outstanding.

Equity Securities

The investment orientation of certain Hedge Funds may be based to a significant extent on equity investments. Investment in equity securities to aggressively seek capital appreciation is speculative and is generally perceived to encompass greater risks than those involved in connection with an investment in debt securities of comparable issuers.

Fixed Income Securities

The Hedge Funds may invest in fixed income securities and, therefore, may be exposed to the risk of default by the issuers of such securities. Such default may result in delays in payment, or non-payment, of interest or principal when due. Furthermore, the price of fixed income securities will also fluctuate with changes in prevailing interest rates and/or in the creditworthiness of the issuer, which fluctuations may result in a loss of capital by the Hedge Funds.

Exchange-Rate Speculation

Certain or all of the Hedge Funds may engage in exchange-rate speculation. Exchange-rates have been highly volatile in recent years. The combination of volatility and leverage gives rise to the

possibility of large profit, but also creates a high risk of loss. In addition, there is counterparty credit risk since exchange-rate trading is done on a principal to principal basis.

Commodity Interests

Commodity futures prices can be highly volatile. Because of the low margin deposits normally required in futures trading, an extremely high degree of leverage is typical of a futures trading account. As a result, a relatively small price movement in a futures contract may result in substantial losses to the investor. Like other leveraged investments, a futures transaction may result in losses in excess of the amount invested.

Derivatives

A number of the Hedge Funds included as Index Components may use derivative instruments, such as collateralised mortgage obligations ("CMOs"), stripped mortgage-backed securities ("SMBSs"), options and swaps. The derivatives market is, in general, a relatively new market, and there are uncertainties as to how this market will perform during periods of unusual price volatility or instability, market illiquidity or credit distress. Substantial risks are also involved in borrowing and lending against such instruments. The prices of these instruments are volatile, market movements are difficult to predict and financing sources and related interest rates are subject to rapid change. One or more markets may move against the positions held by a Hedge Fund, thereby causing substantial losses. Most of these instruments are not traded on exchanges but rather through an informal network of banks and dealers. These banks and dealers have no obligation to make markets in these instruments and may apply essentially discretionary margin and credit requirements (and thus, in effect, force a Hedge Fund to close out positions). In addition, such instruments carry the additional risk of failure to perform by the counterparty to the transaction. Government policies, especially those of the U.S. Federal Reserve Board and non-U.S. central banks, have profound effects on interest and exchange rates which, in turn, affect prices of derivative instruments. Many other unforeseeable events, including actions by various government agencies and domestic and international political events, may cause sharp market fluctuations.

In recent years, there have been several well-publicised instances of non-traditional managers losing substantial amounts trading in derivatives.

Short Selling

Certain of the Hedge Funds may sell securities short. Short selling exposes a Hedge Fund to theoretically unlimited risk due to the lack of an upper limit on the price to which a security may rise. Short selling involves the sale of borrowed stock. If a stock loan is called, the short seller may be forced to repurchase the stock at a loss. In addition, some traders may attempt to profit by forcing short sellers to incur a loss. Traders may make large purchases of a stock that has been sold short.

The large purchases are intended to drive up the stock price, and cause the short sellers to incur losses. The traders anticipate that the short sellers will limit their losses by repurchasing the stock, thereby forcing the stock price even higher.

Arbitrage Strategies

The use of arbitrage strategies by certain Hedge Funds in no respect should be taken to imply that the Index's inclusion of such Index Components is without risk. Substantial losses may be recognised on "hedge" or "arbitrage" positions, and illiquidity and default on one side of a position may effectively result in the position being transformed into an outright speculation. Every arbitrage strategy involves exposure to some second order risk of the market, such as the implied volatility in convertible bonds or warrants, the yield spread between similar term government bonds or the price spread between different classes of stock issued by the same company. There are few examples of "pure" arbitrage Hedge Funds. Most Hedge Funds also employ limited directional strategies which expose them to market risk.

Illiquid Investments

Hedge Funds may make investments which are subject to legal or other restrictions on transfer or for which no liquid market exists. The market prices, if any, of such investments tend to be volatile, and a Hedge Fund may not be able to sell them when it desires to do so or to realise what it perceives to be their fair value in the event of a sale. Moreover, securities in which a Hedge Fund may invest include those that are not listed on a stock exchange or traded in an over-the-counter market. As a result of the absence of a public trading market for these securities, they may be less liquid than publicly-traded securities. A Hedge Fund may encounter substantial delays in attempting to sell non-publicly-traded securities. Although these securities may be resold in privately negotiated transactions, the prices realised from these sales could be less than those originally paid by the Hedge Fund. Further, companies whose securities are not publicly traded are not subject to the disclosure and other investor protection requirements which would be applicable if their securities were publicly traded.

Conflicts of Interest

The Relationship between the Issuer and the Index Sponsor

Ivy International, LLC, New York, U.S.A., a company incorporated under the laws of the State of Delaware, U.S.A., acts as Index Sponsor and Index Calculation Agent. UBS Investment Bank AG, Frankfurt am Main, Germany, a German legal entity fully owned by UBS AG, Zurich/Basle, Switzerland, is the Issuer of the Certificates.

In the normal course of business, the Issuer and the Index Sponsor and/or their affiliates and/or their

directors, officers and employees may have, or may have had interests or long or short positions in investments made by the other, or may engage in transactions with the other, Hedge Funds and/or Funds of Funds. Such activity may, or may not affect the value of the Certificates, but potential investors should be aware that a conflict may arise in this context.

The Index Sponsor

Certain conflicts of interest exist in the Index Sponsor's relationship to the Index. Such conflicts could affect the objectivity of the Index Sponsor and the performance of the Index. While the Index Sponsor in all instances will use reasonable efforts to resolve these conflicts of interest equitably, there can be no assurance that it will be successful in that regard.

Although the Index Sponsor has agreed to use its best efforts in managing the Index, the Index Sponsor and its principals, members and affiliates (collectively, "**Index Sponsor Parties**") are not required to devote full time or any material portion of their time to the Index. The Index Sponsor is the general partner and/or investment adviser of a number of investment funds, including funds with investment objectives similar or substantially similar to those of the Index, and the Index Sponsor Parties advise and may advise additional clients, some of which hold or may hold the same investments as are included in the Index. No Index Sponsor Party is obligated to include any particular investment opportunity in the Index. The Index Sponsor may in the future sponsor other indices similar to the Index.

Certain Index Sponsor Parties own an interest, directly or indirectly, in investment management firms and may place funds under management with such firms. The Index may include Hedge Funds managed by one or more of these investment management firms as Index Components on terms - including, among other provisions, fees and redemption rights - which may be less advantageous than those available to certain Index Sponsor Parties. In addition, certain Index Sponsor Parties will have an interest in the profits and fees earned by such investment management firms, including profits and fees relating to Hedge Funds included as Index Components.

From time to time, the Index Sponsor Parties or an advisory client of an Index Sponsor Party may invest in, or withdraw an investment from, a Hedge Fund included as an Index Component, is being removed or is not included in the Index. Without limiting the generality of the foregoing, an Index Sponsor Party may invest, through a separate entity, with a Hedge Fund included in the Index. In addition, the Index Sponsor may recommend that the Index add or remove an investment that is being sold or purchased by another advisory client.

In some instances, the Index Sponsor may be required to allocate limited investment opportunities in Hedge Funds among the various investment funds and indices which it and its affiliates manage. The Index Sponsor is not committed to allocating opportunities among the investment funds and indices it and its affiliates manage in any particular proportion.

The Index Sponsor Parties invest directly in various securities (including securities issued by Hedge

Funds) for client accounts as well as their own accounts. The Index Sponsor Parties, in trading on behalf of client accounts or their own accounts, may make use of information obtained in the course of managing the Index, including ideas derived from interaction with managers of the Hedge Funds included in the Index. The Index Sponsor Parties have no obligation to account to the Certificate Holders for any profits earned from their use of such information nor to compensate the Certificate Holders in any respect for their receipt of such information.

The Index Sponsor Parties may make use of the portfolio transactions of their clients' accounts to generate "soft dollars" which are used to pay for services provided to one or more Index Sponsor Parties. Furthermore, the Index Sponsor is authorised on behalf of the Index to consent to "soft dollar" practices on behalf of Hedge Funds included in the Index (including Hedge Funds in which an Index Sponsor Party has or may have an interest) which do not conform to the foregoing restrictions, as established by Section 28 (e) of the U.S. Securities Exchange Act of 1934.

The Hedge Fund Managers and Funds of Funds Managers

Conflicts of interest may exist also in the structure and operation of the business of any or all of the Hedge Funds, Funds of Funds and their managers.

The fee to which a Hedge Fund manager or a Fund of Funds manager, as the case may be, is entitled may not have been set by "arm's length" negotiations and may be higher than the fee which another investment manager may have charged.

Certain securities in which Hedge Funds invest may not have a readily ascertainable market price. Such securities will nevertheless generally be valued by the Hedge Funds, which valuation will be conclusive with respect to the Hedge Fund. However, Hedge Fund managers will generally face a conflict of interest in valuing such securities because the value thereof will affect their managers compensation as well as the performance of their Hedge Funds.

The manager of a Hedge Fund may have other advisory clients and use other investment vehicles and will seek to allocate investment opportunities and dispositions fairly among all clients or vehicles. However, it is likely that a Hedge Fund's portfolio and those of the other clients of the Hedge Fund manager and its affiliates will differ even when their investment objectives are the same or similar. These differences could result in differences in portfolio performance.

Hedge Fund managers may cause their Hedge Funds to purchase securities from or sell securities to such other clients or investment vehicles or advise the counterparty to an over-the-counter contract to which their Hedge Fund is a party if the manager believes such transactions are appropriate based on each party's investment objectives.

The manager of a Hedge Fund or an affiliate thereof may sponsor an, or act as, investment adviser or manager for other investment funds with investment objectives similar and which pursue such investment objectives through allocation of capital to external investment managers in a manner

similar to that of the Hedge Fund (the "**Affiliated Funds**"). In pursuing a Hedge Fund's investment objective and in connection with a Hedge Fund's diversification guidelines, the Hedge Fund's manager may allocate a portion of the Hedge Fund's capital to direct and indirect investments with such Affiliated Funds.

Investment vehicles, including Affiliated Funds, in which a Hedge Fund invests may include investment funds or counterparties with respect to which members, shareholders or affiliates of the manager of the Hedge Fund (i) have ownership or other financial interests or (ii) have business relationships, including but not limited to securities lending, depository, risk management, investment advisory, securities distribution or banking relationships. These relationships may result in conflicts of interest between the manager or its affiliates and the Hedge Fund.

A Hedge Fund manager may, from time to time, cause a Hedge Fund to buy securities from or sell securities to another of its clients or a client of an affiliate of the manager, provided such purchase or sale is based on the respective investment objectives or other considerations of each party. The manager or its affiliates may have a conflict of interest when acting on behalf of clients who are both purchasing and selling the same security. As a result, the manager or its broker-dealer affiliate will execute such a trade only when it or they have determined that the proposed trade is in the best interests of both parties. A Hedge Fund manager or the affiliates of such manager or another collective investment vehicle managed by the manager or its affiliates, also may acquire an ownership or other financial interest in certain third-party managers with which the Hedge Fund invests. The terms of such ownership or financial interest in such managers may involve the manager or its affiliates, or another collective investment vehicle managed by the manager or its affiliates, receiving a portion of any management or performance-based fees paid by such investment vehicle to its manager. This relationship could produce a conflict of interest in that withdrawing funds from a Hedge Fund investment in which the manager, an affiliate or clients other than the Hedge Fund holds a financial interest could adversely affect that investment.

Hedge Fund managers and Fund of Funds managers, as the case may be, will generally receive a performance fee. Such compensation arrangements may create an incentive to make investments that are riskier or more speculative than would be the case if such arrangements were not in effect.

THE FOREGOING LIST OF RISK FACTORS DOES NOT PURPORT TO BE A COMPLETE ENUMERATION OR EXPLANATION OF ALL RISKS INVOLVED IN AN INVESTMENT IN THE CERTIFICATES. PROSPECTIVE INVESTORS SHOULD READ THIS ENTIRE MEMORANDUM AND CONSULT THEIR OWN ADVISERS (INCLUDING TAX ADVISERS) BEFORE DECIDING WHETHER TO INVEST IN THE CERTIFICATES. IN ADDITION, AS THE INDEX DEVELOPS AND CHANGES OVER TIME, AN INVESTMENT IN THE CERTIFICATES MAY BE SUBJECT TO ADDITIONAL AND DIFFERENT RISK FACTORS.

Taxation in the Federal Republic of Germany

I. General Remarks

The following discussion of the tax consequences of an investment in the Certificates is based on the laws currently in force as of the date of this Prospectus. The Issuer emphasizes that the tax implications can be subject to change due to future changes of law.

This discussion is not intended to be a complete and full description of the tax consequences of an investment in the Certificates, but is limited to provide an overview of possible tax consequences.

II. Taxation of the Certificates held as a Private Asset

1. Capital Income

The Issuer is of the opinion that the Certificates do not qualify as capital claims within the meaning of section 20 of the German Income Tax Code (*Einkommensteuergesetz*, "**EStG**"), because neither a compensation for the right to use the capital nor the repayment of the capital is explicitly agreed upon or de facto granted. Any gain from the disposal or redemption of the Certificates does, hence, not qualify as capital income within the meaning of section 20 EStG and is not subject to capital gains taxation. According to the wording of section 20 subparagraph 1 No. 7 EStG, income from capital claims is to be taxed only when the repayment of or a compensation for the rights to use the capital is agreed or granted by the debtor under the capital claim.

With respect to the Certificates in the case at hand the investor does not have any claim for a recurring payment of interest and the redemption amount is fully dependent on the performance of the Index. Therefore, the Certificates constitute an investment for which neither a full nor a partial repayment of the capital is agreed for nor a compensation for the use of the capital is paid.

Upon early termination of the Certificates by the Issuer or upon maturity of the Certificates, the investor will receive a redemption amount that is subject to the performance of the Index over the term of the investment. Thus it is also uncertain in economic terms whether the investor will receive redemption proceeds amounting to the entire invested capital.

The actual repayment of part of the invested capital in the opinion of the issuer does not suffice to fulfil the definitional elements of section 20 subparagraph 1 No. 7 EStG in its second alternative (repayment of the invested capital is "agreed"). Pursuant to the reasoning of section 20 subparagraph 1 No. 7 EStG, securities and capital claims that have a purely speculative nature and with respect to which not at least one of the two conditions set forth above is fulfilled but with respect to which the repayment of the capital as well as the payment of consideration (interest) is uncertain are not subject to the taxation of interest payments but subject to the capital gains tax regime only.

As examples of such innovative investments of a purely speculative nature which are not subject to

taxation on capital income the tax administration has explicitly mentioned index certificates where there is no periodic interest payments and where the repayment amount is fully linked to a stock or other index (see also the letter of the BMF dated 21 July 1998 regarding index participation notes, - IV B 4 – S 2252 - 116/98 (published in: *IDW-Fachnachrichten* 1999 p. 481)).

According to the opinion of the Issuer, the Certificates in the case at hand constitute such investments of a purely speculative nature which are not subject to taxation within the scope of section 20 EStG.

2. Gains from private sales, Section 23 EStG

In case the Certificates are sold or redeemed within one year after the acquisition, any gain or loss from the sale or the redemption is considered as being a gain or a loss from private sales within the meaning of section 23 EStG. Such gain is fully taxable, provided that it - alone or together with other gain from private sales - equals or exceeds EUR 512 within the assessment period of one calendar year. Gains falling short of this threshold are tax exempt. Losses realized within the one year period described above can only be set off against other gains from private sales. To the extent such a set off is not possible in the assessment period in which the loss has been realized, such loss can be carried back one year or can be carried forward into future years and be set off against gains from private sales generated in other assessment periods without any limitation.

In case the Certificates are held for more than one year, gains from the sale or the redemption are in the opinion of the Issuer not taxable provided that the Certificates are held as private assets. Consequently, any loss is not recognized for tax purposes.

III. Taxation of the Certificates held as Business Assets

In case the Certificates are held as business assets, the entire gain is taxable and the entire loss is deductible for tax purposes when realized.

PROSPECTIVE INVESTORS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISERS AS TO THE INDIVIDUAL TAX CONSEQUENCES OF THE INVESTMENT.

Index Description

I. Background to the Index

The UBS STAR Ivy Index (EUR) (the "**Index**") is a Euro-denominated index which mirrors the performance of various Hedge Funds, various Liquidity Strategies and certain Euro Hedging Arrangements (as such terms are defined below), less Expenses (as defined below; which together with the Hedge Funds, Liquidity Strategies and Euro Hedging Arrangements shall be referred to as the "**Index Components**").

Ivy International, LLC, ("**Ivy**", the "**Index Calculation Agent**" or "**Index Sponsor**") created the Index and is responsible for its calculation, rebalancing and management. Ivy is a limited liability company formed in 1997 under the laws of the State of Delaware, United States of America. As it is anticipated that all of the Index Components will be denominated in U.S. Dollars, the Index Sponsor will, to the extent it deems it appropriate, enter into arrangements to hedge the exposure of the Index to significant fluctuations between the Euro and the U.S. Dollar ("**Euro Hedging Arrangements**"). The Index is calculated net of expenses, including, without limitation, management fees, performance fees, placement fees, interest on borrowings and any income, loss, costs and expenses attributable to the currency conversions and any Euro Hedging Arrangements (collectively, the "**Expenses**").

The objective of the Index is to seek consistent investment returns of approximately 300 basis points over LIBOR with low correlation to traditional equity and debt indices, while providing favorable liquidity terms. Ivy believes that the objective of the Index can be achieved by directly or indirectly allocating a substantial portion to selected private pooled investment funds managed by hedge fund managers or managed accounts as to which hedge fund managers are given authority to trade the account in a manner generally consistent with the respective private pooled investment funds that such managers operate (collectively, the "**Hedge Funds**") and by allocating the remaining portion in certain selected liquid return generating strategies (the "**Liquidity Strategies**"). It is anticipated that the Hedge Funds will utilize certain Relative Value Trading Strategies (as described below).

The Index Sponsor intends to initially cause approximately seventy (70%) percent of the Index Components to be Hedge Funds and approximately thirty (30%) percent of the Index Components to be Liquidity Strategies, although there is no requirement to have any particular percentage in either Hedge Funds or the Liquidity Strategies.

It is anticipated that the Index will be created on 29 August 2003 (the "**Index Balancing Date**") with an opening value of the Index of 1,000.00 points. The Index Sponsor may on any date thereafter (each an "**Index Rebalancing Date**"), in its sole and absolute discretion, change the

composition of the Index and/or the weightings of existing Index Components.

Rebalancing of the Index may, in the Index Sponsor's sole discretion, result from one or more of the following, among other causes:

- i. one or more of the Index Components fails to meet the standards set by the Index Sponsor for inclusion in the Index;
- ii. new Index Components are identified by the Index Sponsor, which it believes will help increase the level of the Index over time if included, either as an addition to the existing Index Components or as a replacement for one or more of such Index Components;
- iii. the Index Sponsor concludes that new weightings among the Index Components have the potential to increase the level of the Index over time;
- iv. a Hedge Fund believed to be superior and also available to be included as an Index Component is identified by the Index Sponsor;
- v. to maintain the desired liquidity profile;
- vi. to pay interest and/or principal on borrowings;
- vii. a change in the Index Sponsor's short- to mid-term expectations for a strategy type used for one or more existing or prospective Index Components;
- viii. a change in the investment or economic environment is identified by the Index Sponsor; or
- ix. a change in the circumstances regarding a Hedge Fund, including:
 - (a) changes in the investment process
 - (b) changes in the method of operation
 - (c) changes in type or amount of assets under management
 - (d) changes in personnel
 - (e) development of personal problems
 - (f) conflicts of interest
 - (g) underperformance relative to other Hedge Funds using the same strategy

- (h) withdrawal of the Hedge Fund manager's personal investment

The composition and rebalancing of the Index will be effected by the Index Sponsor in its sole and absolute discretion subject to the following procedures:

The value of the Index immediately after a rebalancing must be the same as the value of the Index immediately before such rebalancing. In other words, no change in the value of the Index may occur solely as a result of a rebalancing.

The Index will be constructed with the objective of seeking consistent investment returns of approximately 300 basis points over LIBOR with low correlation to traditional equity and debt indices, while providing favorable liquidity terms.

The Index Components will consist collectively of a group of Hedge Funds utilizing certain Relative Value Trading Strategies as well as the Liquidity Strategies, Euro Hedging Arrangements, if any, and Expenses.

The Index Sponsor's multi-manager investment philosophy to constructing the Index is premised on balancing risk and reward and employing strategies with low risk. In addition to the Liquidity Strategies, three Relative Value Trading Strategies have been identified by the Index Sponsor as relatively low risk strategies which it will look to the investment managers of the Hedge Funds (collectively, the "**Designated Managers**") to utilize. These are Convertible Hedging, Long/Short Market-Neutral Equities Trading and Basis and Spread Trading. The Index Sponsor may also choose to invest with investment managers employing other hedging and arbitrage strategies involving stocks, bonds, commodities, options on stocks and other financial instruments, as determined in its sole and absolute discretion.

II. Euro Hedging Arrangements

The Index Sponsor will include the Euro Hedging Arrangements as an Index Component. As it is anticipated that the Index Components (i.e. the Hedge Funds and the Liquidity Strategies) will be denominated in U.S. Dollars, the Index Sponsor will, to the extent it deems appropriate, enter into Euro Hedging Arrangements. The value of the Index will be increased or decreased, as the case may be, by any income, loss, costs and expenses attributable to the currency conversions and any Euro Hedging Arrangements. The Euro Hedging Arrangements make a reasonable attempt to offset, but not eliminate, the Euro/U.S. Dollar exposure of the Index, resulting from substantially all other Index Components being U.S. Dollar-denominated.

Pursuant to the Euro Hedging Arrangements, to the extent reasonably practicable, non-functional currency exposure (i.e., U.S. Dollar exposure) is hedged back to the functional currency (Euros) of the Index by means of selling the non-functional currency (U.S. Dollar) forward. Non-functional currency

exposure is determined periodically and incremental non-functional currency exposure is hedged when readily determinable.

The Index Sponsor will enter into Euro Hedging Arrangements to the degree it deems appropriate in its sole and absolute discretion.

III. Index Calculation

Ivy, as both Index Sponsor and Index Calculation Agent, will select the Index Components, enter into and manage the Euro Hedging Arrangements, rebalance and/or revise the Index from time to time in its sole and absolute discretion and, based upon estimated unaudited data received from the Hedge Funds and the Liquidity Strategies, calculate on each Index Calculation Date the value of the Index as of each Index Valuation Date (which calculation will include the effect of all Expenses and any Euro Hedging Arrangements). An "**Index Valuation Date**" is the last Calendar Day of each month. The "**Index Calculation Date**" relating to an Index Valuation Date is the last Business Day of the month immediately following the Index Valuation Date. "**Business Day**" means any day on which the banks in Frankfurt am Main, London, and New York City are open for business. The first Index Valuation Date is 30 September 2003. The first Index Calculation Date is 31 October 2003.

After creation, the following formula will be used by the Index Calculation Agent on a monthly basis in order to calculate the value of the Index.

$$\text{Index}(t) = \text{Index}(t-1) \text{ multiplied by } \{\text{EUR Value}(t) / \text{EUR Value}(t-1)\}$$

(the interval between t and $t-1$ refers to the period of one month)

where:

| | |
|----------------------------|--|
| Index _(t) | The closing value of the UBS STAR IVY Index (EUR) on the Index Valuation Date _(t) , as calculated by the Index Calculation Agent on the relevant Index Calculation Date, at the end of month _(t) . |
| EUR Value _(t) | The sum of the Weighted Closing Valuations in Euro of the Index Components (net of Expenses) on the Index Valuation Date _(t) , as calculated by the Index Calculation Agent on the relevant Index Calculation Date. |
| EUR Value _(t-1) | The sum of the Weighted Closing Valuations in EUR of the Index Components (net of Expenses) on the previous Index Valuation Date _(t-1) , as calculated by the Index Calculation Agent on the relevant previous |

| | |
|--|-------------------------|
| | Index Calculation Date. |
|--|-------------------------|

"**Weighted Closing Valuations**" are the last valuation of the Liquidity Strategies and the most recent estimated unaudited weekly valuations of each Hedge Fund included in the Index as provided by the Designated Managers to the Index Calculation Agent on or before the relevant Index Calculation Date, multiplied by their respective weightings on the relevant Index Valuation Date.

An "**Index Fee**" equal to 2.10% per annum, which comprises part of Expenses, will be applied to the Weighted Closing Valuations of the Index Components.

Changes in the value of the Index will be determined by the estimated values of the Index Components, less Expenses, from one Index Valuation Date to the immediately following Index Valuation Date based upon the most recent estimated unaudited weekly reports received by the Index Calculation Agent from the Designated Managers and the other Index Components, if any. The value of the Index determined on an Index Calculation Date for a particular Index Valuation Date will be different than the estimated unaudited weekly value of the Index prepared by the Index Calculation Agent on or about the Index Valuation Date due to the timing of such calculations and the information available when such calculations were made. No adjustments will be made to the value of the Index as a result of any discrepancy.

As described above, the value of the Index will be calculated partially from estimated unaudited valuations, including weekly estimates, provided by the Designated Managers. The estimated unaudited financial data used to determine the value of the Index will be based on the information available to the Index Calculation Agent at that particular time and such information may not be complete. The Index Calculation Agent will have no ability to assess the accuracy of the valuations received from the Designated Managers and certain of the Liquidity Strategies. In addition, the Index Calculation Agent will not receive weekly estimates from all Designated Managers. Therefore, the estimated value of the Index may be significantly higher or lower than the actual value of the Index as of a particular Index Valuation Date as determined based upon audited financial data of the Hedge Funds and the Liquidity Strategies.

The above procedure will also apply to circumstances where, in the reasonable discretion of the Index Calculation Agent, market circumstances, such as during acts of war, acts of terrorism, calamities, economic turmoil, etc., make it impossible to base calculations upon actual valuations.

The above procedure will be applied *mutatis mutandis* whenever the Index Calculation Agent needs to determine, in its reasonable discretion, the last valuation of an Index Component that, at some relevant point in time, cannot be valued in the ordinary course.

IV. Index Component Selection

The following are the basic steps to be followed by the Index Sponsor in selecting the Index Components:

Hedge Funds:

The Index Sponsor will research, select and monitor Hedge Funds that employ the varying strategies and techniques described below. The Index Sponsor begins the selection process by identifying independent investment managers which have achieved above-average returns through different market cycles. Good performance in bear markets is given greater weight than good performance in bull markets. Consistency of performance is an important factor. The Index Sponsor reduces the list of prime candidates to those within the specified investment strategies which have performed the best. The Index Sponsor engages in further investigation in order to validate the results shown and where possible to judge the investment managers' adherence to their stated strategies. The Index Sponsor takes into account the quality of the investment managers, their expertise and experience, their risk posture, as well as measuring their communications and reporting. The allocation of assets by the Index Sponsor to Hedge Funds is intended to minimize overall risk while maximizing the ability to achieve profits.

All operations of the Index including, but not limited to the research, selection and monitoring of Hedge Funds and determinations as to how much and when to invest funds in and withdraw funds from Hedge Funds, is and will be made solely by the Index Sponsor in its sole and absolute discretion. The Index Sponsor will only invest in Hedge Funds that are engaged in the strategies and techniques described below. The Designated Managers have complete discretion to purchase and sell securities and commodities for the respective Hedge Funds, subject to any limitations set forth in the respective Hedge Fund agreements.

The Index Sponsor, in order to balance risk and reward, has established a number of general policies. The first is the employment of strategies with low risk. Three Relative Value Trading strategies have been identified as relatively low risk strategies which the Index will utilize. These are Convertible Hedging, Long/Short Market-Neutral Equities Trading and Basis and Spread Trading. The Index Sponsor will invest in those Hedge Funds which, within each strategy, have the greatest likelihood of achieving anticipated returns. The Index Sponsor will assess the overall risk of all of the investments it makes by examining the individual risks and the cross-correlation of risks among each of those Hedge Funds. Future investments may also be made in Hedge Funds employing other hedging and arbitrage strategies involving stocks, bonds, commodities, options on stocks and other financial instruments.

Relative Value Trading strategies attempt to profit from pricing inefficiencies in various markets, including stocks and bonds in the United States and elsewhere. The Hedge Fund's goal is to profit without taking directional market risk. This is generally accomplished by purchasing an undervalued security, or selling short an overvalued security, which is hedged through an offsetting position in a security that has opposite characteristics. Therefore, profitability is not dependent upon the rise in price of markets or specific securities, but, instead, through the change in the relationship of the two (2) securities.

In classic arbitrage, profits are made from the simultaneous trading of the same instrument in different markets. The hedging and arbitrage strategies employed by the investment manager are more complex, involving instruments that have inherent relationships to one another. The Hedge Fund will take advantage of the market's mispricing of related issues, purchasing the undervalued while selling the overvalued. Computer models and mathematical calculations are used to derive these hedging opportunities.

The Designated Managers whose Hedge Funds are Index Components, are expected to be engaged in several different types of Relative Value Trading strategies, including, but not limited to:

A. Convertible Hedging. Convertible hedging involves the simultaneous purchase and short sale of issues of the same corporation. The Designated Manager purchases the undervalued issue and sells short the overvalued issue. Often, the hedge involves the purchase of a convertible bond issued by a corporation and the short sale of that corporation's common stock. The convertible bond generally has a higher rate of return, carries the corporation's legal obligation to redeem at a pre-determined future date, and places its owner in a higher legal standing, as creditor, than the shareholders, should problems arise with the corporation. Therefore, the convertible bond should retain a larger percentage of its value than the common stock when share prices are falling, while retaining the ability to increase in value as the common stock price rises toward, and above, the conversion price. The Designated Manager would purchase the bond when its "premium", the excess of its price over the conversion value, is relatively low. If the common stock price were to decline, it would likely fall at a greater percentage than the bond. If the common stock price were to rise, the price of the convertible bond would likely increase as well. Since there is a difference in amplitude between the relative increases in price, hedges are generally established at less than one hundred (100%) percent.

Convertible hedging activities may involve convertible bonds, convertible preferred stock, warrants and rights. In many instances, options on stocks, including puts and calls,

may be utilized.

Among the risks involved are credit deterioration of the bond purchased in convertible bond hedging. The corporation issuing the bond may become insolvent and no longer able to pay interest, and may place the maturity value of the bond in jeopardy. A premium is generally paid to purchase the convertible bond, and it may disappear due to forced conversion of the bond due to a call of the bond by the issuer, or due to a takeover that accelerates the maturity of the bond. Interest rate risk also exists, wherein rising interest rates reduce the value of the stream of payments to be received from the fixed income instrument. Since these Designated Managers may engage in short selling, they must be able to borrow the shares needed to deliver the necessary stock. The ability to borrow and to maintain the short position is not guaranteed, and if the clearing broker can no longer satisfy the borrow it may "buy in" the security. This could take place at a disadvantageous time.

B. Long/Short Market Neutral Equities Trading. Long/short market neutral equities trading involves the purchase of relatively undervalued equities offset by the simultaneous short sale of relatively overvalued equities. One form of such trading involves different classes of a company's stock. These include voting and non-voting stock of the same company, which generally have a historical pricing relationship, and a high covariance, with each other. Another form of such trading includes the purchase of a company's stock in "local" or "foreign" shares, offset by a short sale of the other. The Designated Manager attempts to take advantage of a misalignment of the historical pricing relationship between these securities.

Another form may involve the purchase of securities within a particular industry and the concurrent short sale of securities within the same industry. The Designated Manager attempts to reduce the industry risk, and, therefore, much of the market risk of general price movements. The Designated Manager's analysis is based on the merits of each individual security, purchasing one the Designated Manager deems undervalued, while selling short one the investment manager deems overvalued.

Another variation of long/short market neutral equities trading is the purchase of a basket of securities deemed undervalued, while concurrently selling short a basket of securities deemed overvalued. The Designated Manager attempts to create two baskets of securities that have common characteristics in order to reduce general market and other exogenous risks. The Designated Manager's long securities tend, however, to have superior characteristics, while short securities tend to have what the Designated Manager deems to be inferior characteristics. Profits are derived from individual stock selection, and the rebate

of interest received on short sale proceeds, while market risk is reduced.

Among the risks involved in long/short market neutral equities trading is tracking risk, wherein the related securities do not properly correlate. Also, since the securities held long may have differing characteristics than those sold short, there is the risk that events may impact one side more than the other. Where the Designated Manager is short stock, there is the risk that the stock is "bought in".

C. Basis and Spread Trading. Basis and spread trading attempts to take advantage of mispricing between related securities. Basis trading involves assessing the difference between the futures and the cash market for a specific commodity, financial or stock market index. Spread trading can involve regulated futures, where the pricing of different months is out of alignment. It can also involve options, including puts and calls for differing strike prices and differing months. The Designated Manager will purchase the relatively undervalued side of the spread and simultaneously sell short the relatively overvalued side. The Designated Manager will close both positions when much, if not all, of the pricing discrepancy disappears.

As part of the Designated Manager's calculations, he will determine the expected profit and potential loss given various scenarios. These will include an extreme rise and/or fall in the price of the underlying stock or commodity. The Designated Manager will establish a hedge that nullifies, as much as possible, the risk of loss due to price changes. The goal is capturing the price discrepancy over time.

Spread trading may also involve the use of stock index options and futures and a "market basket" of securities. The market basket is created to replicate, as nearly as possible, the underlying stocks which are used to calculate the stock index. When the futures are underpriced, trading at a discount to their calculated value, they will be purchased while the market basket will be sold short. When the futures are overpriced, they will be sold while the market basket is purchased. The goal is capturing the differential in pricing.

Basis trading involves the use of financial futures and seeks to capture the yield discrepancies between futures of Treasury Bills, Treasury Bonds and Government-backed mortgages, and their respective actual instruments. Where a high return is indicated by the mispricing of a futures contract, the Designated Manager will simultaneously take an opposite position regarding the deliverable security. The Designated Manager will arrange for any financing that is required, and expect that over time the discrepancy will be captured as profit.

Among the risks involved in spread trading are liquidity, execution and regulatory. Liquidity risk arises in spread trading particularly where the instruments utilized are thinly traded. An imbalance of sellers and a lack of buyers would force the price of such instruments to low levels, even below what the investment manager deems to be "fair" value. Execution risk occurs when only one side of the paired transaction is executed. The Designated Manager may not be able to complete the other side and therefore would fail to "lock in" the favorable spread. Another risk is regulatory, in that futures markets have differing requirements than cash markets. The use of futures may require additional margin while the offsetting cash side does not generate cash until the transaction is completed.

Spread trading does not entail "convergence" in that the instruments involved need not move to the exact same price. Since spread trading involves related issues, there is the risk that the relationship spread widens instead of narrowing, and the spread trader may choose, or be required, to abandon the trade at a loss. There is also tracking risk, wherein the related securities do not properly correlate. After establishing trades involving other parties there may also be counterparty risk, the risk that one of the parties to the transaction may fail to deliver on its obligation.

Liquidity Strategies:

The purpose of the Liquidity Strategies is to increase the overall liquidity of the Index while also adding incremental investment returns over cash and cash equivalent investment returns. The Liquidity Strategies will have the following investment attributes, all calculated (at any given time) on an asset-weighted average basis (collectively, the "**Liquidity Strategies Requirements**"): (i) highly liquid, with weekly or better liquidity terms; (ii) annualized investment performance volatility equal to or better than that of AA-rated corporate debt; (iii) a beta of not more than 0.15 to the major equity indices (e.g., S&P 500 Index and MSCI Developed Markets Europe Index); and (iv) over the prior three years, maximum drawdown experience (measured over any period within the three year term) of not more than 4.5%.

The Index Sponsor, in its sole and absolute discretion, will select the securities and other instruments that will comprise the Liquidity Strategies. Such securities and other instruments may include: (i) cash and cash equivalents, including Euro and U.S. Dollar denominated money market instruments and funds; (ii) portfolios of highly-rated commercial bank loans and floating rate corporate debt, including loan participation funds; (iii) individual hedge funds and managed accounts that satisfy the Liquidity Strategies Requirements; (iv) tactical trading strategies, including investments with commodity trading advisors registered as such with the United States Commodity Futures Trading Commission;

and (v) other investment strategies that satisfy the Liquidity Strategies Requirements as the Index Sponsor deems appropriate, in its sole and absolute discretion.

Zertifikatsbedingungen / Terms and Conditions of the Certificates

Der folgende Text enthält die Zertifikatsbedingungen der UBS STAR IVY (EUR) Zertifikate, die in ihrer deutschen Fassung dem/den Inhaber-Sammelzertifikat(en) (wie nachstehend definiert) beigelegt werden. Allein der deutsche Text ist rechtlich bindend. Die englische Übersetzung dient nur zu Informationszwecken.

The following text sets forth the terms and conditions of the UBS STAR IVY (EUR) Certificates which will be attached in their German version to the Global Bearer Certificate(s) (as defined below). Only the German version shall be legally binding. The English translation is for convenience only.

§ 1

Begebung und Zertifikatsrechte; Form der Zertifikate; Girosammelverwahrung; Übertragbarkeit

- (1) Die UBS Investment Bank AG, Frankfurt am Main, (die "**Emittentin**") begibt 250.000 auf den von dem Index Sponsor (§ 10) erstellten und verwalteten und von der Indexberechnungsstelle (§ 10) berechneten Index (§ 10) bezogene und auf den Inhaber lautende UBS STAR IVY Index (EUR) Zertifikate ohne Nennwert (die "**Zertifikate**").
- (2) Der Inhaber von je einem (1) Zertifikat (der "**Zertifikatsinhaber**") hat das Recht, von der Emittentin nach Maßgabe dieser Zertifikatsbedingungen (diese "**Bedingungen**") einen Betrag in Euro ("**EUR**") zu verlangen, der von der Wertentwicklung des Index abhängig ist.
- (3) Die Zertifikate sind durch ein oder mehrere Dauer-Inhaber-Sammelzertifikate (das/die "**Inhaber-Sammelzertifikat(e)**") verbrieft. Effektive Zertifikate werden nicht ausgegeben. Der Anspruch auf Lieferung effektiver Zertifikate ist ausgeschlossen. Auf die Zertifikate werden weder Zinsen noch Dividenden gezahlt.

§ 1

Issuance and Certificate Rights; Form of Certificates; Collective Safe Keeping; Transferability

- (1) UBS Investment Bank AG, Frankfurt am Main, (the "**Issuer**") issues 250,000 bearer UBS STAR IVY Index (EUR) Certificates with no par value linked to the Index (§ 10) which is created and managed by the Index Sponsor (§ 10) and calculated by the Index Calculation Agent (§ 10) (the "**Certificates**").
- (2) Pursuant to these Terms and Conditions of the Certificates (these "**Conditions**") each holder of one (1) Certificate (the "**Certificate Holder**") has the right to claim from the Issuer an amount payable in Euros ("**EUR**") which is linked to the performance of the Index.
- (3) The Certificates are represented by one or more permanent global bearer certificate(s) (the "**Global Bearer Certificate(s)**"). Definitive Certificates will not be issued. The right to request delivery of definitive Certificates is excluded. No interest and no dividends are payable on the Certificates.

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| <p>(4) Das/die Inhaber-Sammelzertifikat(e) ist/sind bei der Clearstream Banking Aktiengesellschaft in Frankfurt am Main ("CSB") hinterlegt. Die Zertifikate sind als Miteigentumsanteile übertragbar.</p> | <p>(4) The Global Bearer Certificate(s) has/have been deposited with Clearstream Banking Aktiengesellschaft in Frankfurt am Main ("CSB"). The Certificates are transferable as co-ownership participation interests.</p> |
| <p>(5) Im Effektengiroverkehr sind die Zertifikate einzeln übertragbar.</p> | <p>(5) The Certificates are transferable in the clearing systems for settling securities operations in units of one Certificate.</p> |

§ 2

Fälligkeitstag; Tilgung; Erwerb durch die Emittentin

- (1) **Fälligkeitstag**
- "**Fälligkeitstag**" der Zertifikate ist der 30. September 2008. Die Emittentin ist berechtigt, die Laufzeit der Zertifikate durch Bekanntmachung gemäß § 7 an die Zertifikatsinhaber mit einer Frist von mindestens 180 Kalendertagen vor dem zu diesem Zeitpunkt geltenden Fälligkeitstag (dem 30. September 2008 oder einem späteren Fälligkeitstag auf Grund der in diesen Bedingungen vorgesehenen Verlängerung der Laufzeit der Zertifikate) um weitere fünf Jahre zu verlängern; in einem solchen Fall ist der "**Fälligkeitstag**" der Tag, der fünf Jahre auf den vorher festgelegten Fälligkeitstag folgt. Die Emittentin kann die Laufzeit der Zertifikate beliebig oft verlängern.
- (2) **Tilgung bei Fälligkeit; Endgültiger Tilgungsbetrag**
- Vorbehaltlich einer vorherigen Tilgung, eines Kaufs oder einer Einziehung gemäß § 2 (3), (4) wird jedes Zertifikat zum Fälligkeitstag zu seinem Endgültigen Tilgungsbetrag getilgt. "**Endgültiger Tilgungsbetrag**" bedeutet in Bezug auf jedes Zertifikat

§ 2

Maturity Date; Redemption; Purchase by the Issuer

- (1) **Maturity Date**
- The "**Maturity Date**" for the Certificates will be 30 September 2008. The Issuer shall have the right on giving notice to the Certificate Holders in accordance with § 7 not less than 180 calendar days prior to the then existing Maturity Date (30 September 2008 or any later maturity date resulting from any extension of the maturity of the Certificates as provided for in these Terms and Conditions) to extend the maturity of the Certificates for a further period of five years, in which case the "**Maturity Date**" will be the date falling five years after the previously designated Maturity Date. There is no limit to the number of times the Issuer may extend the maturity of the Certificates.
- (2) **Redemption at Maturity; Final Redemption Amount**
- Unless previously redeemed, purchased or cancelled as provided in § 2 (3), (4), each Certificate will be redeemed as of the Maturity Date at its Final Redemption Amount. "**Final Redemption Amount**" means, in respect of each Certificate, an amount

ein Betrag in EUR, der von der Zertifikatsstelle (§ 6) nach billigem Ermessen (§ 315 BGB) nach folgender Formel berechnet wird:

$$\frac{\text{Indexschlusswert}}{\text{Indexanfangswert}} \times M \times 1.000,$$

wobei

"**Indexschlusswert**", vorbehaltlich § 5, der Wert des Index am Fälligkeitstag ist, wie von der Indexberechnungsstelle (§ 10) berechnet und von der Zertifikatsstelle (§ 6) veröffentlicht. Diese Berechnung erfolgt auf Grundlage der Bewertung der jeweiligen "**Indexbestandteile**" (das sind verschiedene Hedgefonds, verschiedene Liquiditäts-Strategien, eine Devisen-Hedging-Strategie, administrative Kosten, Kosten für die Absicherung bestimmter Marktrisiken und gelegentliche Geld- oder Geldmarktinvestments), multipliziert mit ihrer jeweiligen Gewichtung am Fälligkeitstag. Obwohl diese Feststellung der Schlussbewertungen früher erwartet wird, kann sie jederzeit innerhalb von bis zu 16 Monaten nach dem Fälligkeitstag vorgenommen werden.

Vor der Berechnung des Indexschlusswerts wird die Indexberechnungsstelle einen Schätzwert des Index am auf den Fälligkeitstag (ein Indexbewertungstag) bezogenen Indexberechnungstag errechnen ("**Geschätzter Indexschlusswert**"). Diese Schätzung wird auf den letzten, der Indexberechnungsstelle von den Verwaltern der jeweiligen Indexbestandteile am oder vor dem betreffenden Indexberechnungstag mitgeteilten Bewertungen jedes Indexbestandteils, multipliziert mit ihrer jeweiligen Ge-

in EUR calculated by the Certificate Agent (§ 6) in its reasonable discretion (§ 315 of the German Civil Code (*BGB*)) according to the following formula:

$$\frac{\text{Index Final}}{\text{Index Initial}} \times M \times 1,000,$$

where

"**Index Final**" is, subject to § 5, the level of the Index at the Maturity Date as calculated by the Index Calculation Agent (§ 10) and published by the Certificate Agent (§ 6). This calculation will be based on the valuation of the "**Index Components**" (i.e. various hedge funds, various liquidity strategies, an exchange-rate hedging strategy, administrative expenses, the costs of hedging certain market exposures and, from time to time, cash or money market investments), multiplied by their respective weightings on the Maturity Date. Whilst this determination is expected to occur sooner, it may be any time up to 16 calendar months following the Maturity Date.

Prior to the calculation of the Index Final, the Index Calculation Agent will calculate an estimate of the Index ("**Index Estimated Final**") on the Index Calculation Date relating to the Maturity Date (an Index Valuation Date). This estimate will be based on the last valuation of each Index Component, as provided by the Index Component managers, to the Index Calculation Agent, on or before the relevant Index Calculation Date, multiplied by their respective

wichtung am Fälligkeitstag, basieren.

"**Indexbewertungstag**" im Fall der Tilgung bei Fälligkeit ist der Fälligkeitstag. Ein "**Indexberechnungstag**" bezogen auf einen Indexbewertungstag ist der letzte Geschäftstag desjenigen Monats, der unmittelbar auf den Indexbewertungstag folgt. "**Geschäftstag**" ist jeder Kalendertag, an dem die Banken in Frankfurt am Main, London und New York zu Geschäftszwecken geöffnet sind.

"**Indexanfangswert**" ist 1.000,00 Punkte.

"**M**" ist der Multiplikator, der 1 beträgt.

(3) **Vorzeitige Tilgung durch die Emittentin; Vorzeitiger Tilgungsbetrag**

Die Emittentin kann sämtliche, aber nicht einzelne Zertifikate zum Ende eines Kalenderquartals durch eine Bekanntmachung gemäß § 7 mindestens 65 Kalendertage vor dem letzten Kalendertag des entsprechenden Kalenderquartals (der "**Vorzeitige Fälligkeitstag**") kündigen.

Nach einer Kündigung werden die Zertifikate durch Zahlung des Vorzeitigen Tilgungsbetrages gemäß § 4 (1) (ii) getilgt. "**Vorzeitiger Tilgungsbetrag**" bedeutet in Bezug auf jedes Zertifikat einen Betrag in Euro, der von der Zertifikatsstelle nach billigem Ermessen (§ 315 BGB) nach folgender Formel berechnet wird:

$$\frac{\text{Index ER}}{\text{Indexanfangswert}} \times M \times 1.000,$$
wobei

weightings on the Maturity Date.

"**Index Valuation Date**" in the case of Redemption at Maturity is the Maturity Date. An "**Index Calculation Date**" relating to an Index Valuation Date is the last Business Day of the month immediately following the Index Valuation Date. "**Business Day**" means any calendar day on which the banks in Frankfurt am Main, London and New York are open for business.

"**Index Initial**" is 1,000.00 points.

"**M**" is the multiplier, which is 1.

(3) **Early Redemption by the Issuer; Early Redemption Amount**

The Issuer may terminate and redeem all but not some of the Certificates, as of the end of a calendar quarter, by giving a notice in accordance with § 7 at least 65 calendar days prior to the last day of such calendar quarter (the "**Early Maturity Date**").

Upon a termination, the Certificates will be redeemed by payment of the Early Redemption Amount in accordance with § 4 (1) (ii). "**Early Redemption Amount**" means, in respect of each Certificate, an amount in Euro calculated by the Certificate Agent in its reasonable discretion (§ 315 of the German Civil Code (*BGB*)) according to the following formula:

$$\frac{\text{Index ER}}{\text{Index Initial}} \times M \times 1,000,$$
where

"**Index ER**" ist, vorbehaltlich § 5, der Wert des Index am Vorzeitigen Fälligkeitstag, wie von der Indexberechnungsstelle (§ 10) berechnet und von der Zertifikatsstelle (§ 6) veröffentlicht. Diese Berechnung erfolgt auf Grundlage der Bewertung der jeweiligen "**Indexbestandteile**", multipliziert mit ihrer jeweiligen Gewichtung am Vorzeitigen Fälligkeitstag. Obwohl diese Feststellung der Schlussbewertungen früher erwartet wird, kann sie jederzeit innerhalb von bis zu 16 Monaten nach dem Vorzeitigen Fälligkeitstag vorgenommen werden.

Die Indexberechnungsstelle wird einen Schätzwert des Index ER ("**Geschätzter Index ER**") am auf den Vorzeitigen Fälligkeitstag (ein Indexbewertungstag) bezogenen Indexberechnungstag errechnen. Diese Schätzung wird auf den letzten, der Indexberechnungsstelle von den Verwaltern der jeweiligen Indexbestandteile am oder vor dem betreffenden Indexberechnungstag mitgeteilten Bewertungen jedes Indexbestandteils, multipliziert mit ihrer jeweiligen Gewichtung am Vorzeitigen Fälligkeitstag, basieren.

"**Indexbewertungstag**" im Fall der Vorzeitigen Kündigung ist der Vorzeitige Fälligkeitstag. Ein "**Indexberechnungstag**" bezogen auf einen Indexbewertungstag ist der letzte Geschäftstag desjenigen Monats, der unmittelbar auf den Indexbewertungstag folgt. "**Geschäftstag**" ist jeder Kalendertag, an dem die Banken in Frankfurt am Main, London und New York zu Geschäftszwecken geöffnet sind.

"**Indexanfangswert**" ist 1.000,00 Punkte.

"**Index ER**" is, subject to § 5, the level of the Index at the Early Maturity Date as calculated by the Index Calculation Agent (§ 10) and published by the Certificate Agent (§ 6). This calculation will be based on the valuation of each "**Index Component**", multiplied by their respective weightings on the Early Maturity Date. Whilst this determination is expected to occur sooner, it may be any time up to 16 calendar months following the Early Maturity Date.

The Index Calculation Agent will calculate an estimate of the Index ER ("**Index Estimated ER**") on the Index Calculation Date relating to the Early Maturity Date (an Index Valuation Date). This estimate will be based on the last valuation of each Index Component, as provided by the Index Component managers, to the Index Calculation Agent, on or before the relevant Index Calculation Date, multiplied by their respective weightings on the Early Maturity Date.

"**Index Valuation Date**" in the case of Early Redemption is the Early Maturity Date. An "**Index Calculation Date**" relating to an Index Valuation Date is the last Business Day of the month immediately following the Index Valuation Date. "**Business Day**" means any calendar day on which the banks in Frankfurt am Main, London and New York are open for business.

"**Index Initial**" is 1,000.00 points.

"**M**" is the multiplier which is 1.

"M" ist der Multiplikator, der 1 beträgt.

- (4) **Erwerb durch die Emittentin**
Die Emittentin kann jederzeit Zertifikate im freien Markt oder anderweitig zu einem beliebigen Preis kaufen. Von der Emittentin erworbene Zertifikate können nach Wahl der Emittentin gehalten, weiterverkauft oder eingezogen werden.

**§ 3
Status**

Die Zertifikate begründen unmittelbare, nicht nachrangige, unbedingte und unbesicherte Verpflichtungen der Emittentin, die untereinander und mit allen sonstigen gegenwärtigen und künftigen unbesicherten und nicht nachrangigen Verpflichtungen der Emittentin (mit Ausnahme solcher Verpflichtungen, die dem Gesetz nach vorrangig zu behandeln sind) gleichrangig sind.

**§ 4
Zahlungen; Bankgeschäftstage; Zahlstelle**

- (1) Die Emittentin wird über die Zahlstelle an die CSB zur Gutschrift auf die Konten der Zertifikatsinhaber die Überweisung.
- (i) des Endgültigen Tilgungsbetrages wie folgt veranlassen: mindestens 90 % des anhand des Geschätzten Indexschlusswertes berechneten Betrages innerhalb von fünfzehn (15) Bankgeschäftstagen (§ 4 (3)) nach dem Indexberechnungstag, der sich auf den Fälligkeitstag bezieht und den Restbetrag (das ist die Differenz zwischen 100% des Endgültigen Tilgungsbetrages und 90% des anhand des Geschätzten Indexschlusswertes

- (4) **Purchase by the Issuer**
The Issuer may at any time and from time to time purchase Certificates in the open market or otherwise at any price. Certificates purchased by the Issuer may, at the option of the Issuer, be held, resold or cancelled.

**§ 3
Status**

The Certificates constitute direct, unsubordinated, unconditional and unsecured obligations of the Issuer, ranking equally among themselves and equally with all other present and future direct, unsubordinated, unconditional and unsecured obligations of the Issuer, other than obligations preferred by mandatory provisions of law.

**§ 4
Payments; Banking Days; Paying Agent**

- (1) The Issuer will cause via the Paying Agent to CSB for credit to the accounts of the Certificate Holders the transfer
- (i) of the Final Redemption Amount as follows: at least 90 per cent of the amount calculated on the basis of the Index Estimated Final, within fifteen (15) Banking Days (§ 4 (3)) following the Index Calculation Date relating to the Maturity Date and the remainder (being the balance between 100 per cent of the Final Redemption Amount and 90 per cent of the amount calculated based on the Index Estimated Final) within ten (10)

berechneten Betrages) innerhalb von zehn (10) Bankgeschäftstagen nach der Berechnung des Indexschlusswerts;

(ii) des Vorzeitigen Tilgungsbetrages wie folgt veranlassen: mindestens 90 % des anhand des Geschätzten Index ER berechneten Betrages innerhalb von fünfzehn (15) Bankgeschäftstagen (§ 4 (2)) nach dem Indexberechnungstag, der sich auf den Vorzeitigen Fälligkeitstag bezieht, und den Restbetrag (das ist die Differenz zwischen 100 % des Vorzeitigen Tilgungsbetrages und 90% des anhand des Geschätzten Index ER berechneten Betrags) innerhalb von zehn (10) Bankgeschäftstagen nach Berechnung des Index ER.

Nachdem die Emittentin die Überweisung der ersten Auszahlungstranche des Endgültigen oder Vorzeitigen Tilgungsbetrages veranlasst hat, ist eine Übertragung der Zertifikate durch den Zertifikatsinhaber nicht mehr möglich.

Der Zertifikatsinhaber hat weder einen Anspruch auf eine Verzinsung des Endgültigen Tilgungsbetrages während des Zeitraums zwischen dem Fälligkeitstag und Zahlung des Endgültigen Tilgungsbetrages noch auf eine Verzinsung des Vorzeitigen Tilgungsbetrages während des Zeitraums zwischen dem Vorzeitigen Fälligkeitstag und der Zahlung des Vorzeitigen Tilgungsbetrages.

(2) Alle Steuern, Gebühren und andere Beträge, die in Bezug auf Zahlungen in Verbindung mit den Zertifikaten anfallen, sind von den Zertifikatsinhabern zu tragen. Die Emittentin und

Banking Days following the calculation of the Index Final;

(ii) of the Early Redemption Amount as follows: at least 90 per cent of the amount calculated on the basis of the Index Estimated ER within fifteen (15) Banking Days (§ 4 (2)) following the Index Calculation Date relating to the Early Maturity Date and the remainder (being the balance between 100 per cent of the Early Redemption Amount and 90 per cent of the amount calculated based on the Index Estimated ER) within ten (10) Banking Days following the calculation of the Index ER.

The Certificate Holder must not transfer the Certificates after the Issuer has caused the transfer of the initial payment of either the Final or the Early Redemption Amount.

The Certificate Holder has no claim for any interest on the Final Redemption Amount during the period from the Maturity Date until payment of the Final Redemption Amount, nor on the Early Redemption Amount during the period from the Early Maturity Date until payment of the Early Redemption Amount.

(2) The Certificate Holders will be required to pay all taxes, expenses, and other sums which are incurred in respect of any payments in connection with the Certificates. The Issuer and the

die Zertifikatsstelle sind jeweils berechtigt, von den Beträgen, die gemäß diesen Bedingungen von der Emittentin zu zahlen sind, Steuern, Gebühren oder sonstige Beträge einzubehalten, die gemäß vorstehendem Satz von den Zertifikatsinhabern zu tragen sind.

- (3) **"Bankgeschäftstag"** ist jeder Tag, an dem das TARGET-System und Banken in New York geöffnet sind und die CSB Zahlungen abwickelt. **"TARGET-System"** bedeutet das **Trans-European Automated Real-time Gross settlement Express Transfer-Payment System**.
- (4) **"Zahlstelle"** bedeutet die UBS Investment Bank AG, Stephanstraße 14-16, D-60313 Frankfurt am Main. Die Emittentin kann die Zahlstelle jederzeit aus ihrem Amt entlassen und die Zahlstelle kann jederzeit ihr Amt als Zahlstelle niederlegen. Eine solche Entlassung bzw. Niederlegung wird erst dann wirksam, wenn die Emittentin ein anderes Finanzinstitut zur Zahlstelle bestellt hat. Ferner ist die Emittentin berechtigt, weitere Zahlstellen zu bestellen. Jede solche Entlassung, Niederlegung oder Bestellung ist unverzüglich gemäß § 7 bekannt zu machen.

§ 5

Marktstörung

- (1) Wenn nach Auffassung der Indexberechnungsstelle an dem Indexberechnungstag eine Marktstörung (§ 5 (2)) eingetreten ist, dann wird der Indexberechnungstag auf den nächstfolgenden Geschäftstag, an dem keine Marktstörung mehr vorliegt, verschoben. Die Emittentin wird sich bemühen, den Zertifikatsinhaber unverzüglich gemäß § 7 mitzuteilen, dass eine Marktstörung eingetreten ist. Die Emittentin ist hierzu jedoch nicht

Certificate Agent, respectively, are entitled to deduct from the amounts to be paid by the Issuer any taxes, expenses or other sums which are payable by the Certificate Holders pursuant to the preceding sentence.

- (3) **"Banking Day"** means each day on which the TARGET-System and banks in New York are open and CSB settles payments. **"TARGET-System"** means the **Trans-European Automated Real-time Gross settlement Express Transfer-Payment System**.
- (4) **"Paying Agent"** means UBS Investment Bank AG, Stephanstrasse 14-16, D-60313 Frankfurt am Main. The Issuer may at any time remove the Paying Agent, and the Paying Agent may at any time resign from acting as Paying Agent. Such removal and resignation shall only become effective upon the appointment of another financial institution as Paying Agent by the Issuer. The Issuer may also appoint additional Paying Agents. Any removal, resignation or appointment is to be published without undue delay in accordance with § 7.

§ 5

Market Disruption

- (1) If, in the opinion of the Certificate Agent, on the Index Calculation Date a Market Disruption (§ 5 (2)) has occurred, the Index Calculation Date shall be postponed to the next following Business Day on which no Market Disruption exists. The Issuer will endeavour to notify the Certificate Holders in accordance with § 7 without undue delay if a Market Disruption has occurred. The Issuer, however, is not obliged to make such

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| | verpflichtet. | | notification. |
| (2) | Eine " Marktstörung " bedeutet die Suspendierung oder Verschiebung der Berechnung des Index an einem Berechnungstag in Bezug auf den entsprechenden Bewertungstag. | (2) | A " Market Disruption " means the suspending or deferring of the calculation of the Index on an Index Calculation Date with respect to the corresponding Index Valuation Date. |
| | § 6 Zertifikatsstelle | | § 6 Certificate Agent |
| (1) | " Zertifikatsstelle " bedeutet die UBS Investment Bank AG, Stephanstraße 14-16, D-60313 Frankfurt am Main. Die Zertifikatsstelle handelt ausschließlich für die Emittentin und steht nicht in einem Vertretungs- oder Treuhandverhältnis mit den Zertifikatsinhabern. Die Zertifikatsstelle haftet dafür, dass sie im Zusammenhang mit den Zertifikaten Berechnungen vornimmt, nicht vornimmt oder nicht richtig vornimmt oder sonstige Maßnahmen trifft oder unterlässt nur, wenn und soweit sie die Sorgfalt eines ordentlichen Kaufmanns verletzt hat. | (1) | " Certificate Agent " means UBS Investment Bank AG, Stephanstrasse 14-16, D-60313 Frankfurt am Main. The Certificate Agent acts only as agent of the Issuer, and there is no agency or fiduciary relationship between the Certificate Agent and the Certificate Holders. The Certificate Agent shall be held responsible in connection with the Certificates for giving, failing to give, or giving a wrong calculation, or for acting or failing to act, only if, and insofar as, it fails to act with the diligence of a conscientious businessman. |
| (2) | Die Emittentin kann die Zertifikatsstelle jederzeit aus ihrem Amt entlassen und die Zertifikatsstelle kann jederzeit ihr Amt als Zertifikatsstelle niederlegen. Eine solche Entlassung bzw. Niederlegung wird erst wirksam, wenn die Emittentin ein anderes Finanzinstitut zur Zertifikatsstelle bestellt hat. Eine solche Entlassung, Niederlegung oder Bestellung ist unverzüglich gemäß § 7 bekannt zu machen. | (2) | The Issuer may at any time remove the Certificate Agent, and the Certificate Agent may at any time resign from acting as Certificate Agent. Such removal or resignation shall only become effective upon the appointment of another financial institution as Certificate Agent by the Issuer. Such removal, resignation or appointment is to be published without undue delay in accordance with § 7. |
| (3) | Die Zertifikatsstelle wird hiermit von den Beschränkungen des § 181 BGB und etwaigen gleichartigen Beschränkungen des anwendbaren Rechts anderer Länder befreit. | (3) | The Certificate Agent is hereby granted exemption from the restrictions of § 181 of the German Civil Code (<i>BGB</i>) and any similar restrictions of the applicable laws of any other country. |

§ 7
Bekanntmachungen

Bekanntmachungen, welche die Zertifikate betreffen, werden in einem überregionalen Börsenpflichtblatt veröffentlicht.

§ 8
Aufstockungen

Die Emittentin ist berechtigt, ohne Zustimmung der Zertifikatsinhaber jederzeit weitere Zertifikate mit gleicher Ausstattung zu begeben, so dass sie mit den Zertifikaten zusammengefasst werden, eine einheitliche Emission mit ihnen bilden und ihre Anzahl erhöhen. Der Begriff "**Zertifikate**" umfasst im Fall einer solchen Aufstockung auch solche zusätzlich begebenen Zertifikate.

§ 9
Ersetzung der Emittentin

(1) Die Emittentin ist berechtigt, ohne Zustimmung der Zertifikatsinhaber eine andere Gesellschaft als Emittentin (die "**Neue Emittentin**") hinsichtlich aller Verpflichtungen aus oder in Verbindung mit den Zertifikaten an die Stelle der Emittentin zu setzen, sofern

(a) die Neue Emittentin alle Verpflichtungen der Emittentin aus oder in Verbindung mit den Zertifikaten übernimmt,

(b) Die Neue Emittentin alle notwendigen Genehmigungen von den zuständigen Behörden erhalten hat, wonach die Neue Emittentin alle Verpflichtungen aus oder in Verbindung mit den Zertifikaten erfüllen kann und Zahlungen an die Zahlstelle ohne Abzug oder

§ 7
Notices

Notices relating to the Certificates shall be published in an official bourse gazette of nation-wide circulation (*überregionales Börsenpflichtblatt*).

§ 8
Further Issues

The Issuer shall be entitled to issue from time to time, without the consent of the Certificate Holders, additional Certificates with identical terms and conditions, so that the same shall be consolidated to form a single series with the Certificates, and increase the number thereof. The term "**Certificates**" shall, in such case, also include the additionally issued Certificates.

§ 9
Substitution of the Issuer

(1) The Issuer shall be entitled to substitute, without the consent of the Certificate Holders, any other company as issuer (the "**New Issuer**") with respect to all obligations under or in connection with the Certificates; provided, that:

(a) the New Issuer assumes all obligations of the Issuer under or in connection with the Certificates,

(b) the New Issuer has obtained all necessary governmental authorisations from the relevant authorities pursuant to which the New Issuer may fulfill all obligations under or in connection with the Certificates and may transfer payments to the Paying Agent without

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| <p>Einbehalt von irgendwelchen Steuern, Gebühren oder Abgaben vornehmen darf, die die Emittentin nicht hätte vornehmen müssen, und</p> <p>(c) die Emittentin unbedingt und unwiderruflich die Verpflichtungen der Neuen Emittentin garantiert oder einen Ergebnisübernahmevertrag mit der Neuen Emittentin abschließt oder die ordnungsgemäße wirtschaftliche Erfüllung ihrer Verpflichtungen anderweitig sicherstellt.</p> <p>(2) Im Fall einer solchen Ersetzung der Emittentin gilt jede in diesen Bedingungen enthaltene Bezugnahme auf die "Emittentin" als auf die Neue Emittentin bezogen.</p> <p>(3) Eine Ersetzung der Emittentin gemäß § 9 (1) ist für die Zertifikatsinhaber bindend und unverzüglich gemäß § 7 bekannt zu machen.</p> | <p>deduction or withholding of any taxes, expenses or charges which the Issuer would not have had to pay, and</p> <p>(c) the Issuer has unconditionally and irrevocably guaranteed the obligations of the New Issuer or entered into a profit and loss sharing agreement with the New Issuer or otherwise ensures the proper economic fulfillment of all of its obligations.</p> <p>(2) In the event of such substitution, any reference in these Conditions to the "Issuer" shall be deemed to refer to the New Issuer.</p> <p>(3) A substitution of the Issuer pursuant to § 9 (1) shall be binding upon the Certificate Holders and is to be published without undue delay in accordance with § 7.</p> |
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§ 10

Index; Index Sponsor; Indexberechnungsstelle; Anpassungen

- (1) Der "**Index**" ist der UBS STAR IVY Index (EUR), wie er von Ivy International, LLC (die "**Indexberechnungsstelle**" oder der "**Index Sponsor**") berechnet, verwaltet und veröffentlicht wird.
- (2) Falls der Index nicht mehr von der Indexberechnungsstelle berechnet und veröffentlicht oder vom Index Sponsor verwaltet wird, sondern von einer anderen Person, Gesellschaft oder Institution, die die Zertifikatsstelle nach billigem Ermessen (§ 315 BGB) für geeignet hält, (der "**Nachfolgeindexsponsor**"), werden der End-

§ 10

Index; Index Sponsor; Index Calculation Agent; Adjustments

- (1) The "**Index**" is the UBS STAR IVY Index (EUR) as calculated, maintained and published by Ivy International, LLC (the "**Index Calculation Agent**" or the "**Index Sponsor**").
- (2) If the Index is no longer calculated and published by the Index Calculation Agent or managed by the Index Sponsor, but is calculated and published by another person, company or institution which is acceptable to the Certificate Agent in its reasonable discretion (§ 315 of the German Civil Code (*BGB*)) (the "**Successor Index**"),

gültige Tilgungsbetrag und der Vorzeitige Tilgungsbetrag von der Zertifikatsstelle auf der Grundlage des Indexwerts berechnet, der von dem Nachfolgeindexsponsor berechnet und veröffentlicht wurde. In diesem Fall gilt jede Bezugnahme in diesen Bedingungen auf die Indexberechnungsstelle oder den Index Sponsor, soweit es der Zusammenhang erlaubt, als auf den Nachfolgeindexsponsor bezogen.

- (3) Veränderungen in der Berechnungsmethode des Index (einschließlich Berichtigungen) oder der Zusammensetzung oder Gewichtung der Indexbestandteile führen nicht zu einer Anpassung der Berechnung des Endgültigen Tilgungsbetrages bzw. des Vorzeitigen Tilgungsbetrages, es sei denn, die Zertifikatsstelle und der Index Sponsor entscheiden nach billigem Ermessen (§ 315 BGB), dass das zu Grunde liegende Konzept und die Berechnung des Index (einschließlich Bereinigungen) am Indexberechnungstag mit dem vor einer solchen Veränderung zu Grunde liegenden Konzept und der Berechnung des Index nicht mehr vergleichbar ist. Eine Anpassung des Endgültigen Tilgungsbetrages bzw. des Vorzeitigen Tilgungsbetrages kann auch bei einer Aufhebung des Index und/oder seiner Ersetzung durch einen anderen Index erfolgen. Zum Zweck einer Anpassung ermittelt die Zertifikatsstelle nach billigem Ermessen (§ 315 BGB) einen angepassten Wert des Index, der bei der Berechnung des Endgültigen Tilgungsbetrages bzw. des Vorzeitigen Tilgungsbetrages zu Grunde gelegt wird. Ferner bestimmt die Zertifikatsstelle unter Berücksichtigung des Zeitpunkts der Veränderung den Kalendertag, zu dem der angepasste

Sponsor"), the Final Redemption Amount and the Early Redemption Amount shall be calculated by the Certificate Agent on the basis of the value of the Index so calculated and published by the Successor Index Sponsor. In this case, each reference in these Conditions to the Index Calculation Agent or to the Index Sponsor shall, to the extent appropriate, be deemed to refer to the Successor Index Sponsor.

- (3) Any changes in the method of calculating the Index (including corrections) or of the composition or of the weighting of the Index Components shall not lead to an adjustment of the calculation of the Final Redemption Amount or the Early Redemption Amount, as the case may be, unless the Certificate Agent and the Index Sponsor, upon exercise of their reasonable discretion (§ 315 of the German Civil Code (*BGB*)), determine that the underlying concept and the calculation of the Index (including corrections) applicable on the Index Calculation Date is no longer comparable to the underlying concept or calculation of the Index applicable prior to such change. Adjustments of the Final Redemption Amount or the Early Redemption Amount, as the case may be, may also be made as a result of the termination of the Index and/or its substitution by another Index. For the purposes of making any adjustments, the Certificate Agent shall in its reasonable discretion (§ 315 of the German Civil Code (*BGB*)) determine an adjusted value of the Index, which shall form the basis of calculating the Final Redemption Amount or the Early Redemption Amount, as the case may be. Furthermore, the Certificate Agent

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- Wert des Index erstmals zu Grunde zu legen ist. Die angepasste Berechnung sowie der Zeitpunkt ihrer erstmaligen Anwendung werden unverzüglich gemäß § 7 bekannt gemacht.
- (4) Falls der Index aufgehoben und/oder durch einen anderen Index ersetzt wird, kann die Zertifikatsstelle gemeinsam mit dem Index Sponsor nach billigem Ermessen (§ 315 BGB), gegebenenfalls unter Vornahme entsprechender Anpassungen gemäß § 10 (3), festlegen, durch welchen Index (der "**Nachfolgeindex**") der aufgehobene Index ersetzt werden soll. Der Nachfolgeindex und der Zeitpunkt seiner erstmaligen Anwendung werden unverzüglich gemäß § 7 bekannt gemacht. In diesem Fall gilt jede in diesen Bedingungen enthaltene Bezugnahme auf den "Index", sofern es der Zusammenhang erlaubt, als auf den Nachfolgeindex bezogen.
- (5) Falls der Index aus irgendeinem Grund nicht mehr von dem Index Sponsor oder dem Nachfolgeindexsponsor berechnet und veröffentlicht wird, oder falls nach Ansicht der Zertifikatsstelle nach billigem Ermessen (§ 315 BGB) aus irgendeinem Grund eine Anpassung gemäß § 10 (3) oder die Bestimmung eines Nachfolgeindex gemäß § 10 (4) nicht möglich ist, stellt die Zertifikatsstelle nach billigem Ermessen (§ 315 BGB) sicher, dass der Index auf der Grundlage des bestehenden Indexkonzepts und des letzten ermittelten Indexwerts berechnet und veröffentlicht wird. Eine derartige Fortführung wird unverzüglich gemäß § 7 bekannt gemacht.
- shall, taking into account the time the change occurred, determine the calendar day, on which the adjusted value of the Index shall apply for the first time. The adjusted calculation and the time of its first application shall be published without undue delay in accordance with § 7.
- (4) In the event that the Index is terminated and/or replaced with another index, the Certificate Agent together with the Index Sponsor may determine in their reasonable discretion (§ 315 of the German Civil Code (*BGB*)), after having made appropriate adjustments pursuant to § 10(3)), which index (the "**Substitute Index**") shall substitute for such terminated Index. The Substitute Index and the date from which it is applied is to be published without undue delay in accordance with § 7. In this case, each reference in these Conditions to the "Index" shall, to the extent appropriate, be deemed to refer to the Substitute Index.
- (5) If the Index, for whatever reason, will not be calculated and published any longer by the Index Sponsor or by a Successor Index Sponsor, or if, in the opinion of the Certificate Agent in its reasonable discretion (§ 315 of the German Civil Code (*BGB*)), it is not possible, for whatever reason, to make an adjustment pursuant to § 10 (3) or to designate a Substitute Index pursuant to § 10 (4), the Certificate Agent in its reasonable discretion (§ 315 of the German Civil Code (*BGB*)) shall ensure that the Index is calculated and published on the basis of the existing Index concept and the last determined Index value. Any such continuation is to be published without undue delay in accordance
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(6) Auf andere als die oben stehenden Ereignisse, die in ihren Auswirkungen mit solchen Ereignissen vergleichbar sind, sind die in den vorstehenden Absätzen enthaltenen Bestimmungen entsprechend anzuwenden.

(7) Anpassungen nach den vorstehenden Absätzen werden durch die Zertifikatsstelle vorgenommen und sind (sofern nicht ein offensichtlicher Fehler vorliegt) für alle Beteiligten bindend. Alle Anpassungen werden unverzüglich gemäß § 7 bekannt gemacht.

§ 11

Verschiedenes

(1) Form und Inhalt der Zertifikate sowie alle Rechte und Pflichten aus den Bestimmungen der Zertifikate unterliegen in jeder Hinsicht deutschem Recht.

(2) Erfüllungsort ist Frankfurt am Main.

(3) Gerichtsstand für alle Klagen oder sonstigen Verfahren aus oder in Zusammenhang mit den Zertifikaten ist Frankfurt am Main.

(4) Die Emittentin ist berechtigt, ohne Zustimmung der Zertifikatsinhaber (i) in diesen Bedingungen enthaltene offensichtliche Schreib- oder Rechenfehler zu korrigieren und (ii) diese Bedingungen zu ändern oder zu ergänzen, um Widersprüche zu beseitigen oder fehlende Bestimmungen hinzuzufügen, sofern eine solche Änderung oder Ergänzung unter Berücksichtigung der Interessen der Emittentin für die Zertifikatsinhaber zumutbar ist, d.h. die finanzielle Lage der Zertifikatsinhaber nicht wesentlich verschlechtert. Jede solche Korrektur,

with § 7.

(6) The provisions set out in the previous paragraphs shall apply *mutatis mutandis* to events other than those mentioned above, if the effects of such events are comparable.

(7) Adjustments to be made pursuant to the previous paragraphs shall be made by the Certificate Agent and the Index Sponsor and shall (in the absence of manifest error) be binding on all parties concerned. Any such adjustments are to be published without undue delay in accordance with § 7.

§ 11

Miscellaneous

(1) The form and content of the Certificates as well as all rights and obligations arising under the terms of the Certificates shall in all respects be governed by German law.

(2) The place of performance shall be Frankfurt am Main.

(3) The place of jurisdiction for actions or any other proceedings out or in connection with the Certificates shall be Frankfurt am Main.

(4) The Issuer may without the consent of the Certificate Holders (i) correct any manifest typing or calculation error contained in these Conditions, and (ii) modify or supplement these Conditions in order to cure any ambiguity or supplement any missing provision, provided that such modification or supplement is, taking into consideration the interests of the Issuer, not unreasonable for the Certificate Holders, *i.e.*, not materially detrimental to the financial situation of the Certificate Holders. Any such correction, modification or supplement

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| | Änderung oder Ergänzung wird unverzüglich gemäß § 7 bekannt gemacht. | | will be published without undue delay in accordance with § 7. |
| (5) | Falls eine Bestimmung dieser Bedingungen unwirksam ist oder wird, beeinflusst dies in keiner Weise die Wirksamkeit der übrigen Bestimmungen. Die Emittentin wird sich bemühen, die unwirksame Bestimmung durch eine wirksame Bestimmung zu ersetzen, die der wirtschaftlichen Auswirkung der unwirksamen Bestimmung so nahe wie möglich kommt. | (5) | If any of the provisions of these Conditions is or becomes invalid, the validity of the remaining provisions shall not be affected in any way. The Issuer will endeavor to replace the invalid provision with a valid provision, the economic effect of which comes as close as possible to that of the invalid provision. |
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General Information about the Issuer

Corporate Name, Establishment and Registered Office

The Issuer is a stock corporation (*Aktiengesellschaft*) under German law established in 1909 under the name of "Kolonialkontor Aktiengesellschaft". Under the name of "Deutsche Länderbank Aktiengesellschaft" it was acquired by Union Bank of Switzerland AG, Zurich, in 1986 and renamed "Schweizerische Bankgesellschaft (Deutschland) Aktiengesellschaft" and "Union Bank of Switzerland (Deutschland) Aktiengesellschaft" as of January 28, 1986 and April 30, 1997, respectively. Following the merger with Schweizerische Bankverein (Deutschland) AG, the Issuer's name was changed repeatedly. Since June 9, 2003, the corporate name has been "UBS Investment Bank AG".

The Issuer is registered in the commercial register of the local court (*Amtsgericht*) Frankfurt am Main under register number HRB 10762. The registered office of the Issuer is at Frankfurt am Main.

Purpose of the Issuer's Enterprise

The purpose of the Issuer's enterprise is to carry out all kinds of banking and finance transactions, in particular investment banking transactions, as well as related transactions. The Issuer is authorized to establish branch offices and to acquire interests in other enterprises.

Business Activities

UBS Investment Bank is a business division within UBS AG focused on investment banking as per the Anglo-Saxon definition of this term.

UBS Investment Bank AG, Frankfurt am Main, safeguards the interests of this business division of the UBS Group in Germany.

The Issuer's business activities focus on the business divisions: Risk Management Products, Corporate Finance, Trading, Sales and Research in the product areas Equities, Rates and FX/Precious metals.

Fiscal Year

The Issuer's fiscal year is the calendar year.

Executive Bodies

In accordance with the articles of association, the executive board (*Vorstand*) consists of at least two members. The supervisory board appoints the members of the executive board and determines their number. At present, the executive board is composed as follows:

Hartmuth A. Jung (chairman), Eltville
Peter Frans Aarts, Frankfurt am Main

Hermann Prella, Bad Soden
Wolfgang Stolz, Königstein
Stefan M. Winter, Frankfurt am Main

The Issuer is legally represented by two members of the executive board or by one member of the executive board together with one holder of a general commercial power of attorney (Prokurist).

Currently, the supervisory board (*Aufsichtsrat*), which, in accordance with the articles of association, consists of six members, is composed as follows:

Dr. Uwe-Ernst Bufe (chairman), Königstein
Sir Christopher Mallaby (Vice-Chairman), London
Jonathan Britton, London
Alexander Easton, London
Regine Schwarz (employees' representative), Frankfurt am Main
Bernd Patzke (employees' representative), Freigericht

The supervisory board may establish committees from among its members and determine their relevant duties and powers.

The general meeting is convened by the executive board or by the supervisory board.

The Issuer's general meeting is held at its registered office or in a city where another German stock exchange is located.

Each share with a nominal value of EUR 1,000 carries one vote in general meeting.

Unless otherwise provided for in the German Stock Corporation Act (Aktiengesetz) or in the articles of incorporation, resolutions of the general meeting are passed with a simple majority of the votes cast.

Subscribed Capital

The subscribed capital of the Issuer amounts to EUR 125 million. The number of bearer shares outstanding amounts to 125,000 at a nominal value of EUR 1,000 per share.

Major Legal or Arbitration Proceedings

No proceedings are pending before any courts or administrative authorities to which the Issuer is a party or the subject of which are the Issuer's assets and which, in the Issuer's opinion, are likely, individually or as a whole, to have a material adverse effect on the overall financial situation, the capital or results of operations of the Issuer. To the best of the Issuer's knowledge, the initiation of any such proceedings by any administrative authorities or other third parties is not anticipated.

Financial Information

Despite a further deterioration of the economic prospects and declining valuations on the stock exchanges, the Issuer looks back on a successful fiscal year 2002. The Issuer was able to largely maintain operating income on a stable level and to simultaneously reduce costs, thus generating a positive contribution to the results of the UBS Group in a difficult market environment.

Due to a consolidation of the operative business as well as to several non-recurrent effects, the result on ordinary activities, at EUR 88.7 million, rose markedly. This most satisfactory development was mainly the result of an increase in current income from shares as well as other non-fixed-interest securities and equity interests from EUR 26.4 million to EUR 34.2 million. In addition, income from finance transactions, net, rose to EUR 19.1 million. The increase in other operating income from EUR 42.1 million to EUR 77.4 million was mainly the result of the disposal of an equity interest in Deutsche Börse AG.

Due to the decline in business volume in the investment banking sector, net commission income fell from EUR 72.1 million to EUR 66.2 million.

At the same time, as a consequence of a reduction of personnel and of performance-related remuneration components, total expenses decreased from EUR 119.3 million to EUR 103.6 million.

However, provisions had to be increased with respect to a threatened loan loss so that additional expenses of EUR 3.4 million were incurred. The profit payable to the holding company under the existing profit and loss transfer agreement amounts to EUR 83.5 million.

Outlook

The Issuer expects the difficult environment to prevail also in the fiscal year 2003. However, by strengthening its distribution activities, maintaining a clear focus on clients and expanding the fixed income sector, the Issuer hopes to be in a position to stabilize its business development also in the current fiscal year 2003. Nevertheless, the occurrence of the much-hoped-for recovery of the global economy as well as the impact of the war in the Persian Gulf in this respect remain unforeseeable. However, due to the steadily growing market share and the uniform market presentation of all UBS units in Germany scheduled for early June, the market position of the investment bank will also be further strengthened so that the Issuer is confident to be able again to generate a satisfactory result for the current fiscal year.

Auditors

Auditors are Ernst & Young, Deutsche Allgemeine Treuhand AG, Wirtschaftsprüfungsgesellschaft, Eschenheimer Landstrasse 14, D-60322 Frankfurt am Main.

Annual Report 2002

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Corporate bodies of the Bank

Supervisory Board

Dr. Uwe-Ernst Bufe (Chairman)

Chris Brodie (Vice Chairman)
until March 13, 2002

Sir Christopher Mallaby (Vice Chairman)
from March 13, 2002

Jonathan Britton

Russell Aboud
until June 14, 2002

Alexander Easten
from June 14, 2002

Bernd Patzke*

Peter Tröb*

Executive Board

Hartmuth A. Jung
(Speaker)

Peter F. Aarts

Hermann Prella
from September 20, 2002

Wolfgang Stolz

Stefan Winter

*) Employees' representative

Management Report

Overall performance

Despite a further deterioration of the economic climate and declining stock prices the 2002 financial year was a successful year for the bank. The continued application of strict cost and risk management measures enabled the bank to hold operating profits on a relatively sound level and reduce costs at the same time, and to generate a positive contribution to the result of UBS Group in an extremely difficult market environment.

Securities Trading

The continuously difficult market environment forces a number of competitors and clients to consolidate their trading activities. Against this background, the bank was able to increase its market share in the segment of large institutional customers in particular by strengthening its marketing activities and concentrating on our key clients.

The local presence of our Sales and Research Teams played a key role in this success as UBS Warburg AG operates one of the biggest local Research Teams. Our Research and Sales activities achieved special awards in several international surveys.

As a consequence, the commission business did not suffer any heavy losses despite the increasing pressure on margins. The number of transactions settled increased constantly - while profit margins declined – and led to a sustained increase in market shares in this segment. The bank was able to position itself as one of the main business partners for several large German investment fund companies in particular.

Sales activities in the area of Fixed Income were further expanded as well and partly offset the weaker results in the equity areas despite even lower revenue levels.

The market environment also led to an adjustment of risk management structures in equity trading: UBS Warburg changed from a country-oriented to a sector-oriented trading strategy and centred risk management activities for individual sectors in London. UBS Group expects such measures to increase the steadiness of its trading revenues. The decrease of material trading positions of UBS Warburg AG effected in this context led to a realisation of hidden reserves, which resulted in a one-off increase in trading result.

Risk management products

In the area of risk management products, we continued to focus on marketing different investment products such as certificates, yield-enhancing products and instruments with capital protection. It is particularly noteworthy that for yield enhancement products (Discount Certificates) we managed to be number one among the top issuers in Germany for the first time. We furthermore particularly appreciate that we were able to conduct another successful product launch in co-operation with UBS Private Bank: the Eurostoxx Rolling Discount Certificate. We were moreover able to intensify contacts with other financial intermediaries, asset managers in particular, outside of the UBS network. This is not least due to constant product innovations (S2Mart, Speeder, Deep-Discount BLOCs).

In addition to the products presented, the Institutional Investors and Alternative Investments Team offers customised products tailored to the clients' needs. This group increasingly co-operates with insurance companies, solvent companies with high cash resources, investment funds and family offices and offers products such as equity index-linked borrower's note loans with capital guarantee and strategic portfolio overlay structures as well as alternative investments (hedge funds and private equity). In particular the alternative investment area

increased its importance distinctly over the last years. In co-operation with other departments of the bank, we also offer investment solutions in asset/liability management for corporate long-term benefit obligations.

The entire area of risk management products grew overproportionately in Frankfurt over the last years. This trend was again driven by the strong earnings potential and a major contribution to the result of UBS Warburg. Please note that last year the European Risk Management Products Group ("RMP") was awarded the title "Equity Derivative House of the Year" by three independent financial magazines: International Financial Review, Risk Magazine and Institutional Investor. This was in particular due to our comprehensive range of products. The European RMP internet platform "KeyInvest" was repeatedly awarded "best web site for structured investment products" (Euromoney Award 2002, BörseOnline, January 2002). RMP investment products were moreover able to win the price of "Bester Emittent von Discount-Zertifikaten" (Best Issuer of Discount Certificates) as well as "Bester Emittent von Kapitalschutz-Zertifikaten" (Best Issuer of Capital Protection Certificates) issued by Die Welt & Zertifikate Journal.

Investment Banking

We were again able to win several large transactions in the M&A division, including Arcor/Deutsche Bahn, Schmalbach-Lubeca/Amcor, Siemens Unisphere, KirchMedia and Deutsche Lufthansa/DPWN, and further consolidate our position among leading investment banks in Germany.

On top of this, UBS Warburg AG acted as co-manager of bonds issued by Deutsche Telekom AG, DaimlerChrysler AG, BMW AG, EnBW and RWE AG and was involved in a number of other non-corporate client issues as joint book

runner. With the Viatrix transaction for Advent Global Structured Finance also finalised an important deal.

However, against the backdrop of a weak market environment and the deteriorating situation in the Persian Gulf, the equity new issues business was extremely difficult as many companies called off or at least postponed their IPOs and placements in 2002. The size of the Investment Banking team was correspondingly adjusted to the market situation and consolidated to around 40 specialists.

Business Support

The Business Support area primarily focussed on supporting the trading areas as well as realising cost-cutting measures in the period under review. The bank's IT centre, for instance, was moved to Switzerland.

While the number of transactions increased distinctly from the previous year we were nevertheless able to settle such higher volumes without any difficulty.

The number of employees was adjusted to the weak market conditions across all areas of the bank, reducing the number of jobs from 304 in the previous year to 262 at the end of the period under review.

Balance sheet developments

Total assets of the bank increased from EUR 20.11 billion in the previous year to EUR 22.81 billion in the reporting period. One decisive factor in this development was the high level of refinancing needs which were satisfied by means of open market transactions with the ECB. Deposits due from banks also rose from EUR 6.0 billion to EUR 9.6 billion thanks to the increased activity in the area of Certificates.

The equity and other non-fixed income securities portfolio fell sharply from EUR 1.01 billion to EUR 15.22 million which can be put down to the fact that trading activities largely have been declined.

Due to the successful placement of Star Notes certificates for Grosvenor, Meridian and Lighthouse issued by the bank, the bank's certified liabilities recorded a distinct increase from EUR 2.8 billion to EUR 5.9 billion.

And finally, while the bank's equity capital remained on the previous year's level of EUR 290.7 million, claims on customers increased from EUR 120.2 million to EUR 1.24 billion, primarily due to one transaction with a large scale customer. For regulatory purposes, the additional capital components of subordinated liabilities and profit-sharing rights outstanding (to the tune of EUR 64.5 million) must be added to this line item. However, due to the lower capital requirements as a consequence of the conducted trading activities, we intend to transfer to UBS Jersey Branch these subordinated liabilities of EUR 32.2 million.

Earnings position

Notwithstanding the previous year's weak result from ordinary activities (EUR -0.4 million), we were able to increase this figure markedly by EUR 88.7 million by consolidating the operating business and thanks to several one-off effects. This extremely favourable development is due to a rise in current income from equities and other non-fixed income securities as well as to interests in other companies which increased from EUR 26.4 million to EUR 34.2 million. On top of this, net profit on financial operations increased from EUR -17.1 million to EUR 19.1 million. These effects are at least to a certain extent due to the realisation of hidden reserves. The increase in other operating income from EUR 42.1 million to EUR 77.4 mil-

lion is in particular due to the sale of the participating interest in Deutsche Börse AG.

Commission income decreased from EUR 72.1 million to EUR 66.2 million due to lower transaction volumes in the Investment Banking business.

At the same time, the above-mentioned cost savings as well as the reduction of staff levels and the performance-related remuneration components led to a decline of overall expenses to EUR 103.6 million from EUR 119.3 million.

However, higher risk provisioning as a consequence of the feared default of a borrower lead to additional expense of EUR 3.4 million. Net of income taxes of EUR 5.2 million the profit to be transferred to the holding company in the context of a profit and loss transfer agreement amounts to EUR 83.5 million.

Risk report

Given the current market conditions, the commercial success of a financial services company such as UBS Warburg AG is associated in particular with the controlled undertaking and best possible management of financial risks. Therefore, UBS Group constantly monitors especially all business-related risks on a group level as well as on a local level, steadily improving the related risk parameters.

Counterparty risks

Counterparty risks are primarily reflected in the credit risk which in turn is of particular significance in corporate lending and in the trading areas.

UBS Warburg AG ceased to be active in traditional corporate lending several years ago. Again, no new business was acquired in the reporting period and the existing

exposure was further reduced. Residual credit risks in this area meanwhile are of minor importance to our bank.

In securities trading, the bank is mainly involved in transactions free of counterparty risk in the sense that transactions are settled on a delivery-versus-payment basis. The remaining replacement risk which may occur upon default of a counterparty is measured and monitored on a daily basis by the relevant departments of the bank.

Market risk

Market risk refers to the potential of sudden decreases in value within the bank's trading books due to changes in market prices and market parameters. After having reorganised our equity trading activities we now attach equal importance to every trading area whilst market risks in interest rate and currency markets as well as precious metal trading were of minor importance in the past due to the low volumes in our bank.

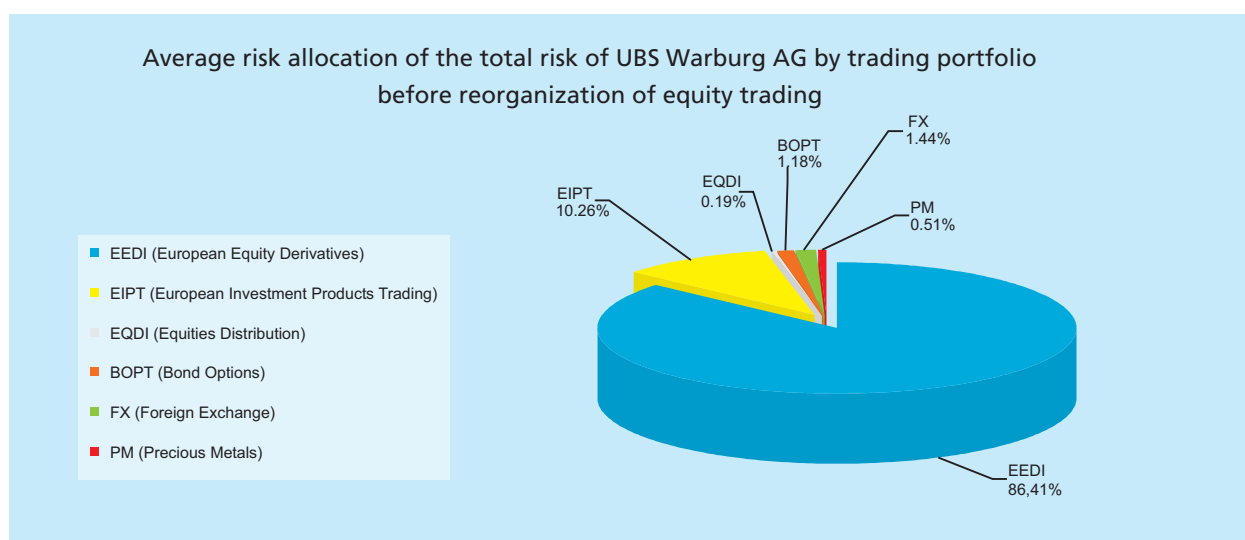
For identification, control and regulatory reporting purposes, UBS Warburg AG implements value-at-risk processes

developed by UBS Group and approved by the Federal Financial Services Supervisory Authority, as well as stress tests and risk-factor loss limits and loss ceilings.

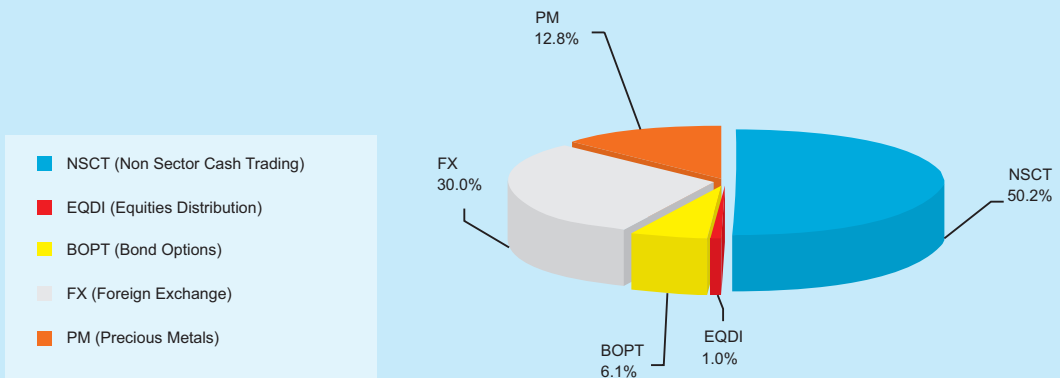
The maximum projected loss in the value-at-risk analysis in relation to market movements observed in the past is supplemented by daily stress tests carried out across the Group. They simulate price crashes as well as price increases in the equity, bond and foreign exchange markets of various countries. The value-at-risk calculation is based on the historical simulation with a simulation period of 5 years, a confidence interval of 99% and a holding period of 10 days. For equities, specific risks of differences in the price development of individual shares and the reference index are taken into account by means of a model based on CAPM (cf. chart page 34).

Liquidity risks

The term liquidity risk designates the risk that a bank is not able to fulfil its current and future obligations to make payments or deliver securities in a timely manner and to the extent required.



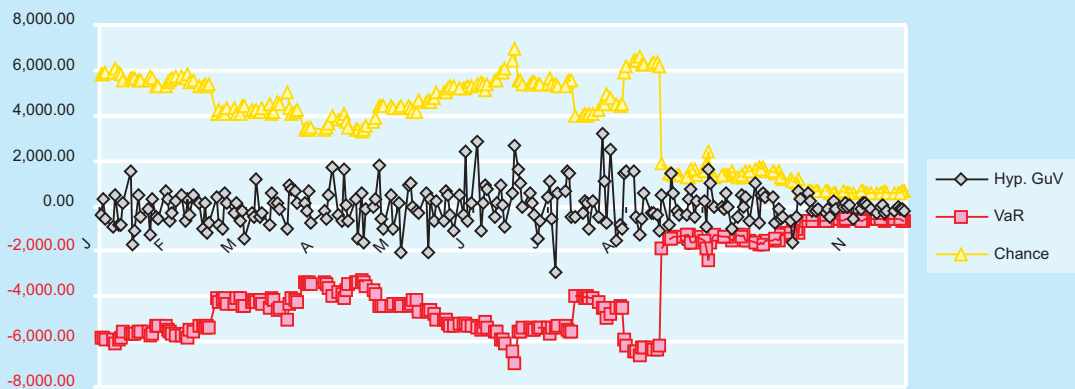
Average risk allocation of the total risk of UBS Warburg AG by trading portfolio after reorganization of equity trading



The provisions of the German Federal Financial Services Supervisory Authority provide the framework for the bank's liquidity management and our Treasury department implements these requirements within the scope of an active liquidity management by means of

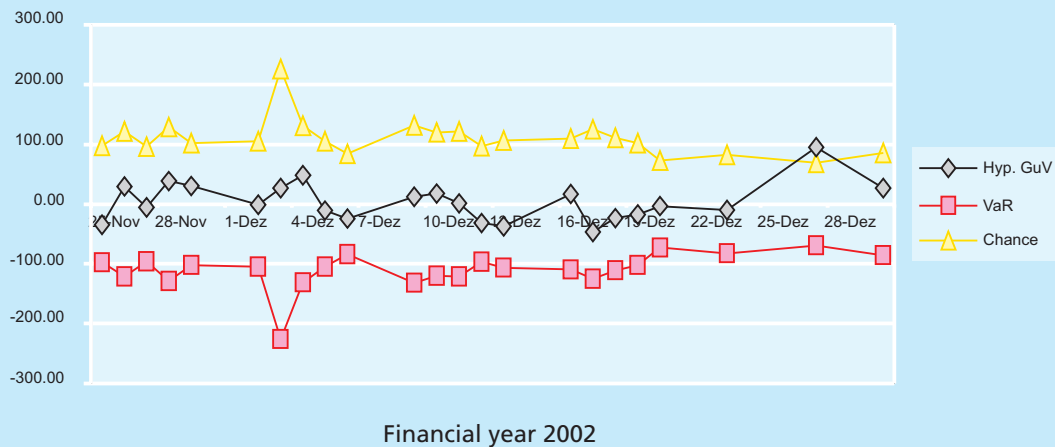
refinancing with matching maturities and terms. Where illiquid securities are concerned, the risk of being unable to fulfil delivery obligations is covered by strict limits which are constantly monitored by the Market Risk Control department. At the same time, such risks are hedged

1 day VaR various 1 day P & L for 2002 before reorganization of equity trading



Financial year 2002

1 day VaR various 1 day P & L for 2002 after reorganization of equity trading



through the bank's membership in protection schemes such as the Joint Fund for Securing Customer Deposits (Einlegesicherungsfonds) of the German Banking Association (Bundesverband deutscher Banken) and the Liquiditätskonsortialbank GmbH.

Operating risks

The various specialist departments in turn constantly monitored the operating risks in the period under review. Various control indicators informed the Executive Board on possible operating risks on a monthly basis. If necessary, direct adjustments were made to the system environment or work flows, respectively. In preparation of prospective regulatory changes, the Group moreover began to selectively collect data on operating losses. Furthermore, UBS Warburg AG has taken sufficient steps to counter a systems breakdown through the

implementation of effective emergency plans and backup solutions.

Legal and reputation risks

The bank's Legal and Compliance departments are primarily responsible for precluding legal and reputation risks. Thus, the Compliance Department commenced to develop a Global Monitoring Programme to monitor and assure compliance with global and local supervisory requirements. The Legal department on its part has ensured that the legal risks in capital market transactions were limited to a minimum through documentation for capital market transactions in compliance with international standards.

Internal Audit finally reviewed all banking and risk-relevant areas and did not report any material findings.

Risk positions

The bank's total net worth as at the balance sheet date is as follows:

| EUR million | 31.12.2002 (previous year) | |
|---|----------------------------|-----|
| Capital backing for risk assets | 147 | 94 |
| Capital requirements for positions exposed to market risk | 29 | 104 |
| Total | 176 | 198 |

Conversely, the bank's liable equity capital in accordance with section 10 of the German Banking Act amounted to EUR 365 million as at the balance sheet date. The total capital ratio of at least 8% as prescribed in principle I was complied with in the overall financial year. The total capital ratio on 31 December 2002 amounted to 16.6% (2001: 14.8%).

Outlook

The bank envisages a difficult environment for 2003 as well. However, we hope to stabilise our business development in the current 2003 financial year by strengthening our distribution network, a clear focus on customers and the expansion of our Fixed Income area. There is, however, no telling when the much awaited economic recovery will materialise and how it will be impacted by the war in the Persian Gulf. We are nevertheless confident that we will be able to achieve a satisfactory result in the current financial year. This confidence is due to the expectation that the Investment Bank's position in the market will improve on the back of a constant increase in market share and the uniform market approach of all UBS entities in Germany which is scheduled for the beginning of June.

Balance Sheet
as of 31 December 2002

Balance Sheet

as of 31 December 2002

Assets

| | EUR | EUR | 2002 EUR | 2001 '000 |
|---|----------------------|-----------------------|-----------------------|-------------------|
| Cash reserve | | | | |
| a) cash | | 3,100 | | 5 |
| b) deposits with central banks | | <u>0</u> | | 23,143 |
| including: deposits with Deutsche Bundesbank | | | | |
| EUR 23,142,839 (2001: '000 EUR 23,143) | | | 3,100 | 23,148 |
| Receivables from banks | | | | |
| a) on demand | | 1,776,772,373 | | 1,879,604 |
| b) other receivables | | 7,824,045,344 | 9,600,817,717 | 4,095,843 |
| | | | | 5,975,447 |
| Receivables from customers | | | 1,240,013,701 | 120,239 |
| a) including: secured by mortgages and real estate | | | | |
| EUR 2,498,737 (2001: '000 EUR 514) | | | | |
| Debentures and other fixed-interest bonds | | | | |
| a) money market | | | | |
| aa) from public bodies | 0 | | | 50,010 |
| including: eligible as collateral for Deutsche Bundesbank | | | | |
| EUR (2001: '000 EUR 50,010) | | | | |
| ab) from other issuers | <u>201,050,000</u> | 201,050,000 | | 1,355,248 |
| including: eligible as collateral for Deutsche Bundesbank | | | | |
| EUR 201,050,000 (2001: '000 EUR 1,355,248) | | | | |
| b) bonds and debentures | | | | |
| ba) from public bodies | 3,169,025,498 | | | 1,611,532 |
| including: eligible as collateral for Deutsche Bundesbank | | | | |
| EUR 3,169,025,498 (2001: '000 EUR 1,611,532) | | | | |
| bb) from other issuers | <u>7,914,370,513</u> | <u>11,083,396,011</u> | 11,284,446,011 | 8,610,354 |
| including: eligible as collateral for Deutsche Bundesbank | | | | |
| EUR 7,731,139,761 (2001: '000 EUR 8,417,373) | | | | 11,627,144 |
| Shares and other non-fixed-interest securities | | | 15,225,579 | 1,007,875 |
| Investments | | | 230,659 | 1,535 |
| including: banks | | | | |
| EUR 230,657 (2001: '000 EUR 231) | | | | |
| Tangible fixed assets | | | 5,274,958 | 7,793 |
| Other assets | | | 662,028,604 | 1,345,510 |
| Prepaid and deferred expenses | | | 9,166 | 0 |
| Total assets | | | 22,808,049,495 | 20,108,691 |

Liabilities

| | EUR | EUR | 2002 EUR | 2001 '000 |
|---|-------------------|-----------------------------|-----------------------|-------------------|
| Liabilities to banks | | | | |
| a) on demand | | <u>12,421,154,109</u> | | 12,198,071 |
| b) with a term or period of notice | | 2,462,336,698 | | <u>1,879,128</u> |
| | | | 14,883,490,807 | 14,077,199 |
| Liabilities to customers | | | | |
| a) other liabilities | | | | |
| aa) on demand | | 186,328,752 | | 237,299 |
| ab) with a term or period of notice | | <u>867,050,123</u> | | <u>795,004</u> |
| | | | 1,053,378,875 | 1,032,303 |
| Certified liabilities | | | | |
| a) own debentures issued | | 175,699,124 | | 192,982 |
| b) other certified liabilities | | <u>5,682,025,121</u> | 5,857,724,245 | 2,623,860 |
| including: other acceptance and outstanding promissory notes EURO 0 (2001: '000 EUR 0) | | | | |
| Other liabilities | | | 599,643,193 | 1,590,295 |
| Deferred income | | | 30,522 | 83 |
| Accruals | | | | |
| a) for pensions and similar obligations | | 27,619,067 | | 25,286 |
| b) for taxes | | 10,781 | | 265 |
| c) others | | <u>31,057,354</u> | 58,687,202 | 211,238 |
| Subordinated liabilities | | | 31,549,148 | 31,634 |
| Profit-sharing rights | | | | |
| including: on demand on less than 2 years EURO 0 | | | 32,824,939 | 32,825 |
| Equity | | | | |
| a) subscribed capital | | 125,000,000 | | 125,000 |
| b) capital reserves | | 120,328,582 | | 120,329 |
| c) earnings reserves | | | | |
| cd) other reserves | <u>45,391,982</u> | 45,391,982 | | 45,392 |
| d) profit carried forward | | <u> </u> | 290,720,564 | <u>0</u> |
| | | | | 290,721 |
| Total liabilities | | | 22,808,049,495 | 20,108,691 |
| Contingent liabilities | | | | |
| a) contingent liabilities on bills rediscounted | | 0 | | 0 |
| b) contingent liabilities arising from guarantees | | 170,089,882 | 170,089,882 | 26,229 |
| Other commitments | | | | |
| a) irrevocable credit commitments | | 35,910,449 | 35,910,449 | 116,535 |

Profit and Loss Account

for the Period from 1 January to 31 December 2002

| | EUR | EUR | 2002 EUR | 2001 '000 |
|--|-------------------|-------------------|-------------|--------------------------|
| Interest income from | | | | |
| a) lending and money market transactions | 80,082,448 | | | 198,319 |
| b) fixed-interest bonds and securities | <u>18,841,804</u> | 98,924,252 | | 21,399 |
| Interest expenses | | <u>97,386,545</u> | 1,537,706 | 212,262 7,456 |
| Current income from | | | | |
| a) shares and other non-fixed-interest securities | | 34,019,696 | | 23,339 |
| b) investments | | 225,946 | | 289 |
| c) shares in affiliated companies | | <u>0</u> | 34,245,642 | <u>2,723</u> 26,351 |
| Commission income | | 88,990,095 | | 87,475 |
| Commission expenses | | <u>22,797,252</u> | 66,192,843 | <u>15,361</u> 72,114 |
| Net income from financial transactions | | | 19,097,548 | (17,118) |
| Other operating income | | | 77,449,154 | 42,064 |
| General administrative expenses | | | | |
| a) personnel expenses | | | | |
| aa) wages and salaries | 52,873,179 | | | 73,398 |
| ab) social security contributions, pension and welfare expenses | <u>5,645,579</u> | 58,518,759 | | 5,903 |
| thereof for pensions: '000 EUR 2,820 (2001: '000 EUR 2,908) | | | | |
| b) other administrative expenses | | <u>45,062,883</u> | 103,581,641 | <u>39,961</u> 119,262 |
| Depreciation and amounts written off of intangible and tangible fixed assets | | | 2,898,302 | 8,694 |
| Other operating expenses | | | 4,604 | 3,125 |
| Write-downs of and provisions against receivables and certain securities and additions to accruals relating to the credit business | | | 3,360,775 | 199 |
| Income from reversal of write-downs of investments, shares in affiliated companies and securities treated as fixed assets | | | 0 | 25 |
| Results from ordinary operations | | | 88,677,571 | -388 |
| Taxes | | | 5,214,520 | -6,746 |
| Other taxes, if not included in other operating expenses | | | -41,276 | -456 |
| Profits transferred as a result of a profit transfer or partial profit transfer agreement | | | 83,504,327 | 6,814 |
| Net profit of the year | | | 0 | 0 |
| Net profit of the year | | | 0 | 0 |
| Net profit carried forward from previous year | | | 0 | 0 |
| Balance sheet profit | | | 0 | 0 |

Appendix

I. Principles of Accounting and Valuation

The accounting and valuation methods remain unchanged from the previous year.

Provision has been made for losses on doubtful individual loan accounts from lending operations including losses on country risk loans and moreover a comprehensive provision has been made for existing lump sum loan losses.

Investments and shares in affiliated companies are balanced at the lower of purchase value or market value at the cut-off date.

Tangible assets are depreciated using the straight-line method. On the other hand, low-value assets were immediately depreciated in full.

Liabilities are stated at repayment value. Provisions have been made for uncertain liabilities. Provisions have covered risks and imminent losses from businesses that are not in balance.

Pension liabilities were determined by an actuarial opinion according to the International Accounting Standards. All similar liabilities were determined by an actuarial opinion, using the Dr. Heubeck actuarial tables.

Interest deferrals from security lending transactions with bonds, debentures and money market securities are not stated.

Securities, Options, Forward Transactions and other Derivative Transactions

Premiums received or paid as bought or sold options are passively or actively balanced as other liabilities or as other assets, in compliance with the lower cost principle.

The required provisions for seller positions have been made so far as they are required at an appropriate amount based on market value.

Options on the same type of equities or indices are summarised to valuation units regardless of the type of option (call or put), of basis price, and of maturity, and, so far as each type of equity or index has adjusted a loss, taken into profit and loss.

Share write-offs were provided for as expenses.

Not netted unrealised net profits from options and equities were not entered as operating results.

Forward transactions and other derivative transactions in share indexes, interest agreements and fixed-interest securities were valued at the prices and interest rates of the balance sheet date.

Interest swaps used for dealing purposes were valued at cash value, while in interest swaps serving to secure balance positions the limitation method was applied.

Otherwise the securities of the current assets were valued in strict compliance with the lower cost or market value principle.

Currency Conversion

Current assets in foreign exchange are converted to the reference rate of December 31, 2002 (call-date method). Foreign exchange liabilities likewise were converted in full at the reference rate of December 31, 2002.

In one case, existing investment assets were converted at the reference rate of December 31, 2002, since a special cover existed.

Forward exchange currency transactions were valued at the respective futures rates. Valuation gains or losses originating from currency transactions were summarised according to currencies; resulting potential losses per currency were charged to income.

II. Notes to Balance Sheet and Profit and Loss Accounts

Maturity pattern

Receivables and liabilities are listed by residual maturity.

| | '000 Euro | | '000 Euro |
|---|------------------|---|-----------|
| Receivables from banks (other receivables) with a maturity of | | Liabilities to banks with a term or period of notice and maturity of | |
| 1) less than three months | 2,546,242 | 1) less than three months | 2,435,775 |
| 2) three months to one year | 4,985,963 | 2) three months to one year | 1,841 |
| 3) more than one year to five years | 56,628 | 3) more than one year to five years | 9,774 |
| 4) more than five years | 235,212 | 4) more than five years | 14,947 |
| | | | |
| Receivables from customers due in with a maturity of | | Other liabilities to customers with a term or period of notice and a maturity of | |
| 1) less than three months | 1,173,094 | 1) less than three months | 29,336 |
| 2) three months to one year | 834 | 2) three months to one year | 32,622 |
| 3) more than one year to five years | 7,381 | 3) more than one year to five years | 254,715 |
| 4) more than five years | 15 | 4) more than five years | 550,377 |
| 5) with indefinite maturity | 58,690 | | |
| | | | |
| Debentures and other fixed-interest securities with maturity in the following year | 1,891,204 | Negotiated bonds with maturity in the following year | — |
| | | | |
| | | Other certified liabilities with a maturity of | |
| | | 1) less than three months | 51 |
| | | 2) three months to one year | 5,494,523 |
| | | 3) more than one year to five years | 172,744 |
| | | 4) more than five years | 14,707 |

Receivables from affiliated companies and companies in which investments are held

| | Affiliated companies | Companies in which investments are held |
|----------------------------|----------------------|---|
| | '000 EUR | '000 EUR |
| Receivables from banks | 9,467,312 | — |
| Receivables from customers | 25,165 | — |

Liabilities to affiliated companies or companies in which investments are held

| | Affiliated companies | Companies in which investments are held |
|--------------------------|----------------------|---|
| | '000 EUR | '000 EUR |
| Liabilities to banks | 13,715,895 | — |
| Liabilities to customers | 21,199 | — |

Marketable securities

| | Total Volume | Listed | Not listed |
|--|--------------|------------|------------|
| | '000 EUR | '000 EUR | '000 EUR |
| Bonds and other fixed-interest securities | 11,284,446 | 11,284,446 | — |
| Equities and other non-fixed-interest securities | 762 | 762 | — |
| Investments | — | — | — |

Balance sheet items in foreign currencies

Assets in foreign currencies amounted to EUR 4,301.8 million while liabilities in foreign currencies altogether amounted to EUR 4,300.5 million.

Schedule of fixed assets

| '000 EUR | Purchase value | Additions Financial year | Retirements Financial year | Accumulated depreciation | Residual book value 12/31/2002 | Depreciation Financial year | Residual book value Previous year |
|--|----------------|--------------------------------|----------------------------------|-----------------------------|--------------------------------------|-----------------------------------|---|
| Bonds | 192,982 | | 17,283 | | 175,699 | | 192,982 |
| Investments | 1,535 | | 1,304 | | 231 | | 1,535 |
| Shares and other non-fixed-interest securities | | 14,464 | | | 14,464 | | |
| Tangible fixed assets/ office furniture and equipment | 47,963 | 387 | 3,002 | 40,073 | 5,275 | 2,898 | 7,793 |

The tangible assets consist exclusively of the bank's office furniture and equipment.

Retirements in the amount of EUR 1.3 million in "Investments" refer to the participation of the Deutsche Börse AG, which has been sold in 2002.

Additions in other non fixed interest securities resulted from a shift of a specialized fund which previously has been shown in the trading portfolio.

The bonds in fixed assets are denominated in British Pounds (GBP) and are valued on the basis of special cover at the current price. The disposal resulted from changes in the exchange rate.

Other Assets and Liabilities

Of the other assets, EUR 652.9 million on the balance sheet date accounted for option premiums paid. With the other liabilities, the share of retained option premiums amounted to EUR 509.8 million.

Contingent Liabilities

The contingent liabilities amounted to EUR 170.1 million and arise entirely from a guarantee in favour of UBS AG, London Branch (EUR 165.0 million), guarantee contracts (EUR 4.2 million) and a share in a syndicate of a discount credit (EUR 0.9 million).

Other Obligations

The other liabilities in the amount of EUR 35.9 million consist entirely of irrevocable credit commitments, which have a remaining term of less than four years.

Fixed Assets Transferred as Collateral

On the balance sheet date, securities to the nominal amount of EUR 9,735.9 million were pledged with European Central Bank (ECB). On the balance sheet date, EUR 137.8 million were actually utilised for an overnight loan and EUR 946.7 million for open market transactions. The liabilities connected with this are reported in the balance position "Liabilities to banks".

In addition, securities to the nominal value of EUR 500,000 were deposited with Eurex as security. Furthermore, securities to the nominal value of EUR 25.0 million were pledged in the clearing system with Euroclear and EUR 30.0 million with Clearstream. For liabilities from negotiated bonds, the bank pledged securities with a book value of EUR 175.7 million as security.

Securities to the nominal value of GBP 570.0 million were pledged with UBS AG, London Branch.

Profit and Loss Accounts

The position "Other operating income" essentially includes group clearing/settlement (EUR 13.7 million) dissolution of provisions (EUR 10.2 million) and realised profit on the sale of the Investment of the Deutsche Börse AG (EUR 50.6 million) in 2002.

The position "Other operating expenses" includes losses on the sale of office furniture and equipment.

The expenses accruing for subordinated liabilities in the year under review come to EUR 1.6 million.

III. Notes on Equity Capital and the Appropriation of Earnings

As of December 31, 2002 the bank's equity capital may be described as follows:

Subscribed Capital

Subscribed capital amounts to EUR 125.0 million. The number of bearer shares outstanding amounted to 125,000 at a nominal value of EUR 1,000.00 per share.

Capital Reserves and Earnings Reserves

Capital reserves amount to EUR 120.3 million and the earnings reserve is EUR 45.4 million.

Profit-Sharing Rights

Profit-sharing rights in the nominal amount of EUR 30.7 million are held by UBS International Holding BV, Amsterdam and were issued by SBV (Deutschland) Holding GmbH on May 31, 1996, for which the bank has assumed the legal position of the issuer. The dividend-right certificate is for the nominal amount of DEM 60 million (EUR 30.7 million) and, also with respect to a possible deferred payment claim, grants an annual payment claim of 7% of its nominal amount. It takes priority over the shareholders' profit share. However, the payment is limited by the fact that it may not cause a net loss of the year for which the payment is made neither may it increase the net loss of the year.

Subordinated Liabilities

Subordinated liabilities result from a loan agreement of DEM 60 million between UBS AG Jersey Branch, St. Helier (formerly Swiss Bank Corporation Jersey Branch) and Schweizerischer Bankverein (Deutschland) AG of April 30, 1997, for which the bank has the legal position of the borrower since the merger in 1998. Interest payment is 0.75% annually above the 12-months-DM-LIBOR (the current interest rate is 4.7575%). Interest is paid in arrears no later than May 31 of each year. The term of the loan is unlimited. The lender and the bank may terminate the loan, observing a notice period of 24 months, but to May 31, 2002 at the earliest.

The subordinated loan meets the requirements according to section 10 paragraph 5 German Banking Act (KWG) and was accepted as liable capital by the Federal Banking Supervisory Authority (BAFin) in its letter of May 27, 1997.

Appropriation of net income

On the basis of the profit and loss transfer agreement of November 26, 1992 the Bank is obliged to transfer the net profit for the year in the amount of EUR 83.5 million to UBS Beteiligungs - GmbH & Co. KG.

IV. Other Notes

Liability Conditions

A reserve liability of up to EUR 1.8 million and a joint liability are connected with participation in the Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, according to section 5, paragraph 4 of the partnership agreement.

Forward and Option Transactions

On the balance sheet date, the bank had the following types of pending forward and option transactions:

Transactions with interest rate risk:

- interest rate swaps (mainly as hedge transactions),
- future rate agreements (mainly as commercial transactions),
- interest rate options (mainly as commercial transactions).

Transactions with special price risk:

- stock index option contracts (exclusively as commercial transactions),
- index futures (exclusively as commercial transactions),
- swaps (mainly as hedge transactions).

Transactions with foreign exchange risk:

- forward exchange transactions (mainly as hedge transactions),
- currency options contracts (mainly as commercial transactions).

Contract volumes and maturities are classified as follows:

| | | Contract volume (million EUR) contracts maturity | | | |
|---|------------------------------|---|-------------|-----------|-------|
| | | <=1 year | 1 - 5 years | > 5 years | total |
| Interest-related transactions | | | | | |
| OTC Products | interest swaps | 0 | 79 | 1,332 | 1,411 |
| | interest call options | 111 | 6 | 711 | 828 |
| | interest put options | 0 | 0 | 0 | 0 |
| | other interest contracts | | | | |
| Listed Products | interest futures | 0 | 0 | 0 | 0 |
| | interest options | 109 | 0 | 0 | 109 |
| Currency-related transactions | | | | | |
| Forward exchange Products | purchase | 10 | 0 | 0 | 10 |
| | sale | 10 | 0 | 0 | 10 |
| OTC Products | currency call options | 813 | 0 | 0 | 813 |
| | currency put options | 526 | 0 | 0 | 526 |
| | other currency contracts | | | | |
| Listed Products | currency futures | 0 | 0 | 0 | 0 |
| | currency options | 357 | 0 | 0 | 357 |
| Precious metals | | | | | |
| OTC Products | precious metals call options | 247 | 4 | 0 | 251 |
| | precious metals put options | 142 | 1 | 0 | 143 |
| Listed Products | precious metals call options | 0 | 0 | 0 | 0 |
| | precious metals put options | 146 | 20 | 0 | 166 |
| Stock/index-related transactions | | | | | |
| OTC Products | stock/index swaps | 0 | 5,250 | 512 | 5,762 |
| | stock/index call options | 519 | 1,544 | 90 | 2,153 |
| | stock/index put options | 519 | 1,377 | 75 | 1,971 |
| | other stock/index contracts | | | | |
| Listed Products | stock/index futures | 0 | 0 | 0 | 0 |
| | stock/index call options | 0 | 0 | 0 | 0 |
| | stock/index put options | 0 | 0 | 0 | 0 |

The credit-equivalence-amounts of the derivatives on the balance sheet date totalled as follows:

| | | |
|--|-------------|-------|
| Interest-related derivatives: | million EUR | 190.9 |
| Currency- / precious metals related derivatives: | million EUR | 336.6 |
| Stock-related derivatives: | million EUR | 984.0 |

Number of Employees

The bank's staff amounted to 262 employees on December 31, 2002 (female employees: 100, male employees: 162). The average number of employees was 274 for 2002.

Corporate Bodies

Executive Board

Hartmuth A. Jung (Chairman), bank manager

Peter F. Aarts, bank manager

Hermann Prella, bank manager
from September 20, 2002

Wolfgang Stolz, bank manager

Stefan Winter, bank manager

Supervisory Board

Dr. Uwe-Ernst Bufo (Chairman), chemist

Chris Brodie (Vice Chairman), bank manager
until March 13, 2002

Sir Christopher Mallaby (Vice Chairman), bank manager
from March 13, 2002

Jonathan Britton, bank manager

Russell Aboud, bank manager
until June 14, 2002

Alexander Easton
from June 14, 2002

Bernd Patzke,* bank officer

Peter Tröb,* bank manager

Remuneration of the Corporate Bodies and Relationships Involving Credit

The contractually agreed remuneration of the Executive Board amounted to EUR 11.930 million for 2002. EUR 1.076 million was paid to earlier members of the Executive Board and their surviving dependants. Pension obligations for them amount to EUR 11.940 million. The remuneration of the Supervisory Board was EUR 2,500. There were, as of the balance sheet date, no advances, credits or liability relations in favour of the Executive Board, the Supervisory Board, or shareholders.

Group Membership

UBS AG, Zurich/Basle, holds the entire equity capital of our bank through its subsidiary UBS Beteiligungs GmbH & Co. KG, Frankfurt am Main. A subordination and transfer of profits contract exists with the sole stockholder according to section 291 of the Stock Corporation Act (AktG).

The group financial statements for the largest and the smallest consolidation circle are the consolidated annual accounts of UBS AG, Zurich/Basle. It is available in our bank.

Frankfurt am Main, March 24th, 2003

UBS WARBURG AG
The Executive Board

*) Employees' representative



H.A. Jung



P.F. Aarts



H. Prella



W. Stolz



S.M. Winter

Report of Independent Accountants

We have audited the annual financial statements, together with the bookkeeping system, and the management report of UBS Warburg AG for the business year from Jan. 1, 2002 to Dec. 31, 2002. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the company's management. Our responsibility is to express an opinion on the annual financial statements, the bookkeeping system and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB and the generally accepted German standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the

disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with principles of proper accounting. On the whole the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Frankfurt am Main, May 12th, 2003

Ernst & Young, Allgemeine Treuhand AG



Sterz
Auditor



App
Auditor

Report of the Supervisory Board

The Supervisory Board regularly monitored the management of the company on the basis of written and oral reports submitted by the Executive Board and performed all duties according to legal requirements. Important management issues were examined by the Supervisory Board and discussed with the Executive Board.

The Annual Financial Statements and the Management Report for the financial year 2002 have been examined – including the accounting records – by Ernst & Young, Deutsche Allgemeine Treuhand AG, auditors, Frankfurt am Main, who were selected by the general meeting to perform the audit. These documents are provided with an unrestricted auditor's report. The Supervisory Board has taken note of the Annual Financial Statements, the Management Report, and raises no objections owing to the results of its own examination, but rather approves the Annual Statements put forward by the Executive Board. The Annual Financial Statements are thus officially established.

In March 2002, Chris Brodie left the Supervisory Board of the bank. For the rest of his term of office Sir Christopher Mallaby has been elected member and Vice Chairman of the Supervisory Board of UBS Warburg AG. Further on in June 2002 Russell Aboud retired from his duties as member of the Supervisory Board of the bank. For the rest of his term of office Alexander Easton has been elected member of the Supervisory Board of UBS Warburg AG. The Supervisory Board and the Executive Board thank the retired board members for their co-operation.

We would particularly like to thank all members of staff for their commitment to the bank.

Frankfurt am Main, June 2003

The Supervisory Board



Dr. Uwe-Ernst Bufe
Chairman



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