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SECURITIES LITIGATION & CONSULTING GROUP

Structured Products Research Report

Report Prepared On: 08/02/13

Buffered Return Optimization Securities With Leveraged Downside linked to S&P 500 Index

Structured Product Details

Name	Buffered Return Optimization Securities With Leveraged Downside linked to S&P 500 Index
Issue Size	$3.00 million
Issue Price	$1,000
Term	24 Months
Annualized Coupon	0.00%
Pricing Date	November 30, 2011
Issue Date	December 5, 2011
Valuation Date	December 2, 2013
Maturity Date	December 5, 2013
Issuer	UBS
CDS Rate	172.63 bps
Swap Rate	0.67%
Reference Asset	the S&P 500 Index
Initial Level	1,246.96
Dividend Rate	2.10%
Implied Volatility	27.08%
Delta[1]	0.48
Fair Price at Issue	$998.35
CUSIP	90267T253
SEC Link	www.sec.gov/Archives/edgar/data/1114446/000119312511327618/d263828d424b2.htm

Description

UBS issued $3.00 million of Buffered Return Optimization Securities With Leveraged Downside linked to S&P 500 Index on December 5, 2011 at $1,000 per note.

These notes are UBS-branded Buffered PLUS securities that do not pay periodic coupons, but instead pay a single amount at maturity depending on the final level of the S&P 500 Index.

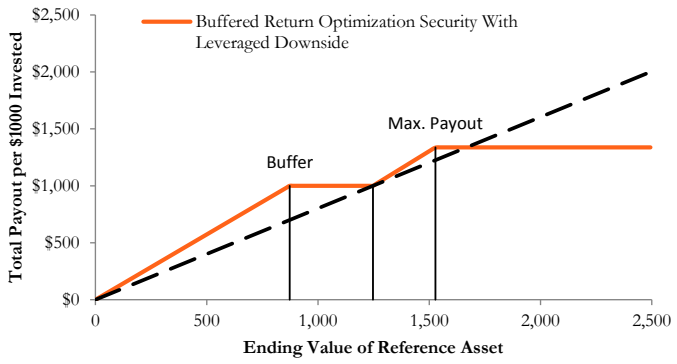
If on December 2, 2013 the S&P 500 Index level is higher than 1,246.96, but lower than 1,527.53, the notes pay a return equal to the percentage increase in the S&P 500 Index multiplied by 1.5, up to a cap of 33.75%. If on December 2, 2013 the refe is below 1,246.96 but not below 872.87, investors receive $1,000 face value per note. If the S&P 500 Index level on December 2, 2013 is lower than 872.87, investors receive face value per note reduced by 1.43 times the amount the reference asset is below 872.87 as a percent of the initial level, 1,246.96.

Valuation

This product can be valued as a combination of a note from UBS, 1.43 short out-of-the-money put options, 1.5 long at-the-money call options, and 1.5 short out-of-the-money call options. For reasonable valuation inputs this note was worth $998.35 when it was issued on December 5, 2011 because the value of the options investors gave UBS plus the interest investors would have received on UBS's straight debt was worth $1.65 more than the options investors received from UBS.

There is no active secondary market for most structured products. Structured products, including this note, therefore are much less liquid than simple stocks, bonds, notes and mutual funds. Investors are likely to receive less than the structured product's estimated market value if they try to sell the structured product prior to maturity. Our valuations do not incorporate this relative lack of liquidity and therefore should be considered an upper bound on the value of the structured product.

Payoff Curve at Maturity



The payoff diagram shows the final payoff of this note given the S&P 500 Index level (horizontal axis). For comparison, the dashed line shows the payoff if you invested in the S&P 500 Index directly.

Related Research

Research Papers:

www.slcg.com/research.php

- *"Are Structured Products Suitable for Retail Investors?"* December 2006.
- *"Structured Products in the Aftermath of Lehman Brothers,"* November 2009.
- *"What TiVo and JP Morgan Teach Us about Reverse Convertibles,"* June 2010.

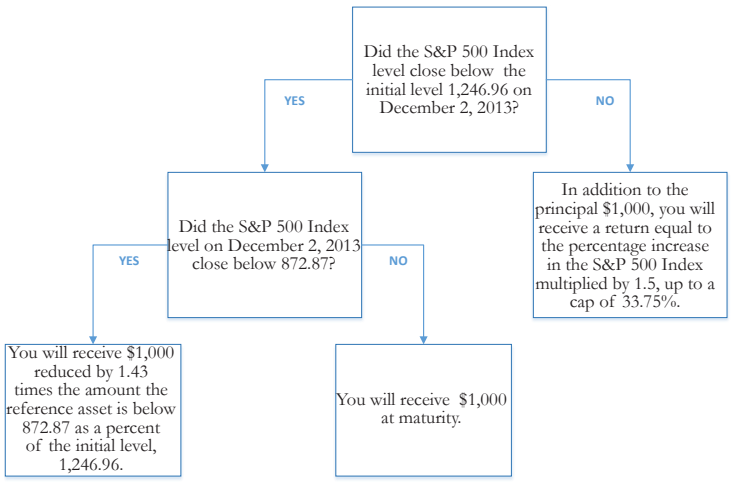
Tim Husson, Ph.D.,
Senior Financial Economist, SLCG
(+1) 703.890.0743
TimHusson@slcg.com

3998 FAIR RIDGE DRIVE, SUITE 250, FAIRFAX, VA 22033 | MAIN (703) 246-9380 | INFO@SLCG.COM
100 WILSHIRE BLVD, SUITE 950, SANTA MONICA, CA 90401 | MAIN (310) 917-1075

Principal Payback Table

The S&P 500 Index	Note Payoff
0.00	$0.00
124.70	$142.84
249.39	$285.70
374.09	$428.56
498.78	$571.42
623.48	$714.28
748.18	$857.14
872.87	$1,000.00
997.57	$1,000.00
1,122.26	$1,000.00
1,246.96	**$1,000.00**
1,371.66	$1,150.00
1,496.35	$1,300.00
1,621.05	$1,337.50
1,745.74	$1,337.50
1,870.44	$1,337.50

Maturity Payoff Diagram

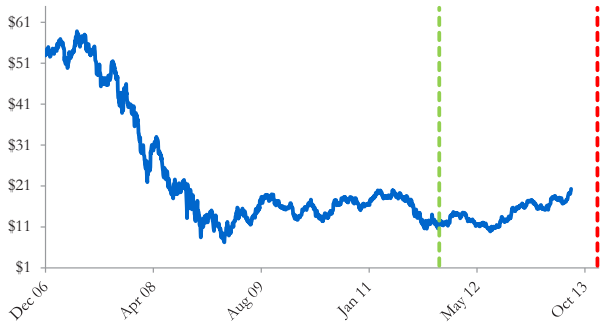


The contingent payoffs of this Buffered Return Optimization Security With Leveraged Downside.

Analysis

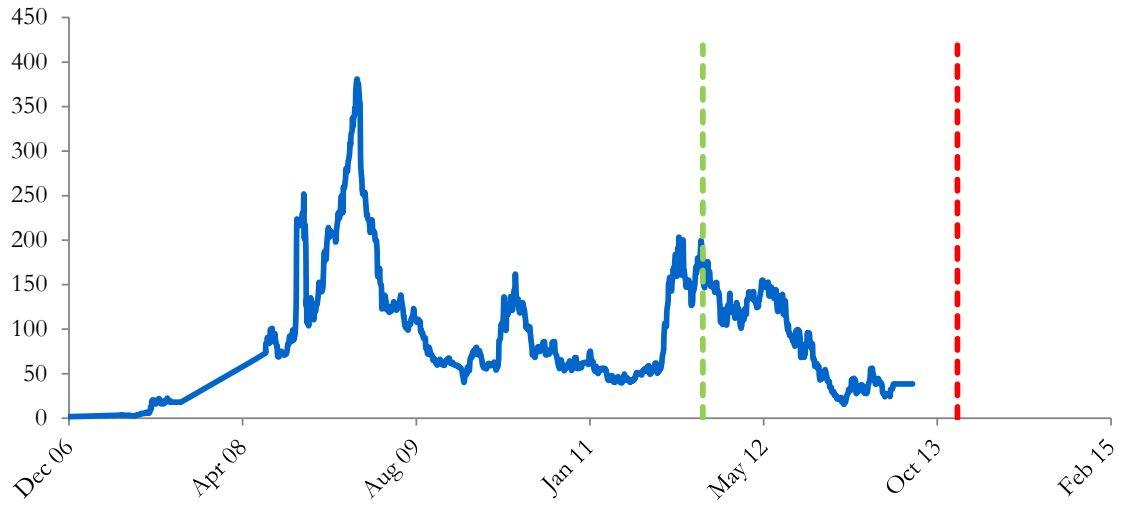
This Buffered Return Optimization Security With Leveraged Downside pays investors the increase in the S&P 500 Index multiplied by 1.5 capped at 33.75%, but if the S&P 500 Index declines over the term of the note, investors will suffer losses equal to the percentage decline in the S&P 500 Index. In addition, investors bear the credit risk of UBS. Investors purchasing this Buffered Return Optimization Security With Leveraged Downside effectively sell at-the-money put and out-of-the-money call options to UBS, buy at-the-money call options, and a zero-coupon note from UBS. This Buffered Return Optimization Security With Leveraged Downside is fairly priced if and only if the market value of the options investors received from UBS equals the market value of the options investors gave UBS plus the interest investors would have received on UBS's straight debt.

UBS's Stock Price



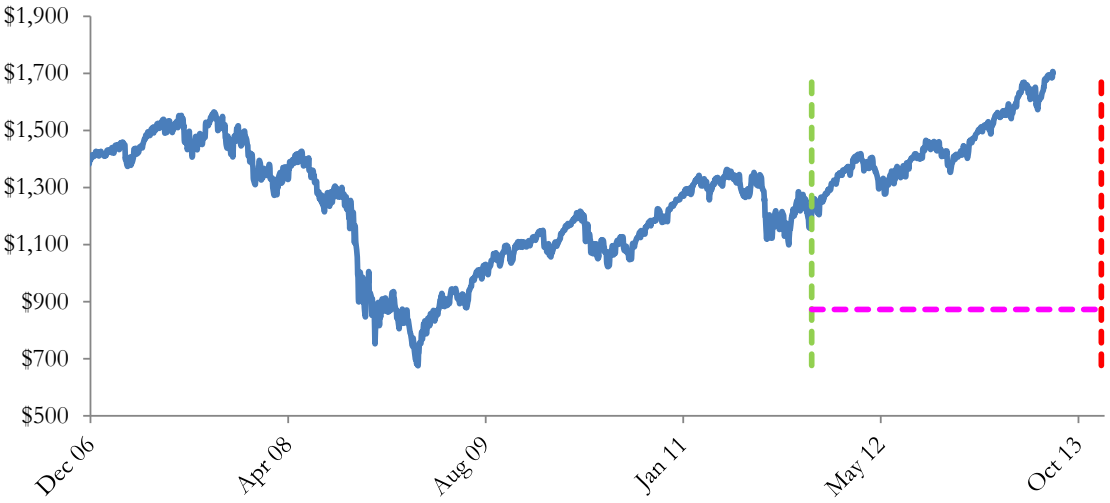
The graph above shows the adjusted closing price of the issuer UBS for the past several years. The stock price of the issuer is an indication of the financial strength of UBS. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

UBS's CDS Rate



Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as UBS. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of UBS's debt, including outstanding Buffered Return Optimization Security With Leveraged Downside. Fluctuations in UBS's CDS rate impact the market value of the notes in the secondary market.

The S&P 500 Index Level

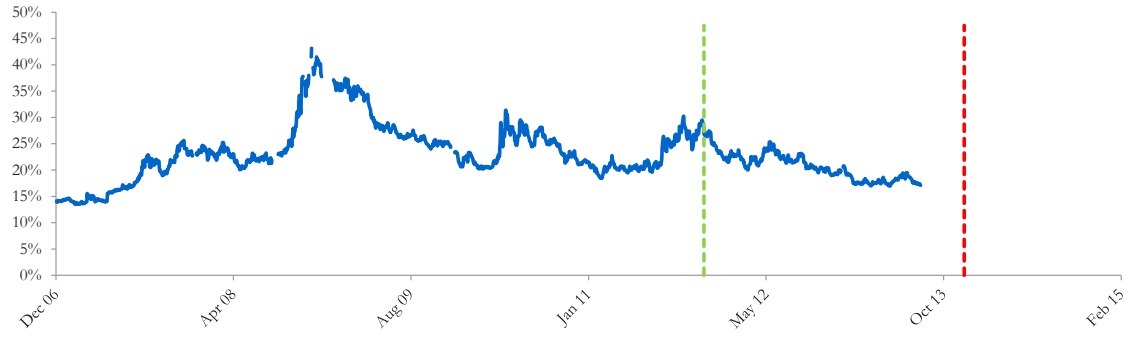


The graph above shows the historical levels of the S&P 500 Index for the past several years. The final payoff of this note is determined by the S&P 500 Index level at maturity. Higher fluctuations in the S&P 500 Index level correspond to a greater uncertainty in the final payout of this Buffered Return Optimization Security With Leveraged Downside.

Realized Payoff

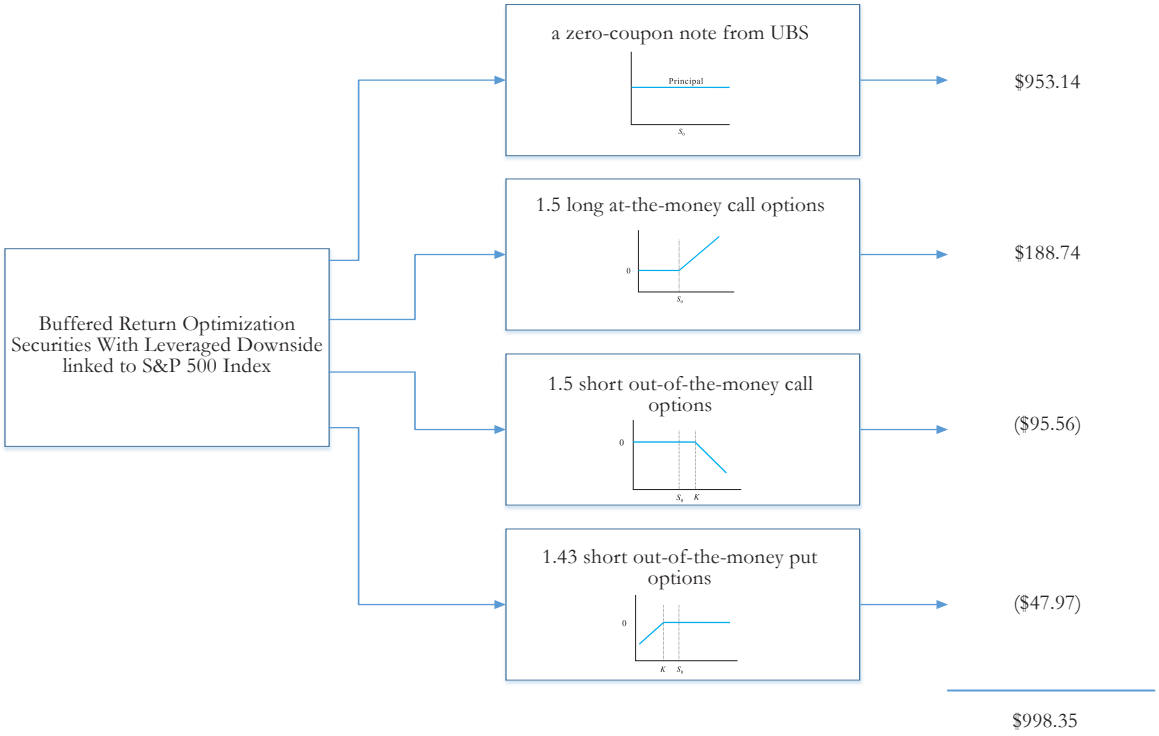
This product will mature on December 5, 2013.

Reference Asset The S&P 500 Index's Implied Volatility



The annualized implied volatility of the S&P 500 Index on November 30, 2011 was 27.08%, meaning that options contracts on the S&P 500 Index were trading at prices that reflect an expected annual volatility of 27.08%. The higher the implied volatility, the larger the expected fluctuations of the S&P 500 Index level and of the Note's market value during the life of the Notes.

Decomposition of this Buffered Return Optimization Security With Leveraged Downside



This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this Buffered Return Optimization Security With Leveraged Downside.

1. Delta measures the sensitivity of the price of the note to the the S&P 500 Index level on November 30, 2011.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the the S&P 500 Index on November 30, 2011.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.