Structured Product Details

Name	Return Optimization Securities Linked to the S&P 500 Index
Issue Size	$4.02 million
Issue Price	$10
Term	13 Months
Annualized Coupon	0.00%
Pricing Date	February 24, 2012
Issue Date	February 29, 2012
Valuation Date	March 22, 2013
Maturity Date	March 28, 2013
Issuer	UBS
CDS Rate	105.34 bps
Swap Rate	1.03%
Reference Asset	the S&P 500 Index
Initial Level	1,365.74
Dividend Rate	1.98%
Implied Volatility	20.93%
Delta[1]	0.73
Fair Price at Issue	$9.40
CUSIP	90267Y443
SEC Link	www.sec.gov/Archives/edgar/ data/1114446/000139340112000017/ c303792_690695-424b2.htm

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.

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Report Prepared On: 02/02/13

Return Optimization Securities Linked to the S&P 500 Index

Description

UBS issued $4.02 million of Return Optimization Securities Linked to the S&P 500 Index on February 29, 2012 at $10 per note.

These notes are UBS-branded PLUS securities that do not pay periodic coupons, but instead pay a single amount at maturity depending on the S&P 500 Index level at maturity.
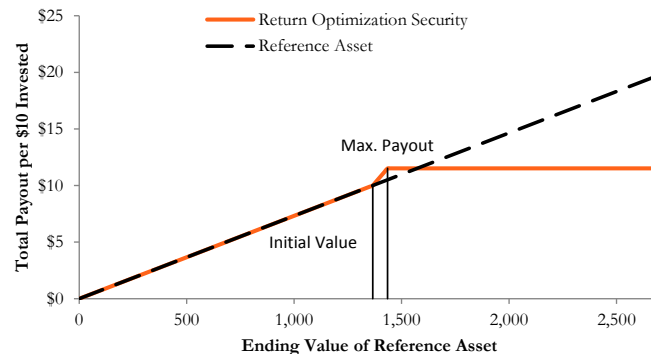
If the S&P 500 Index level on March 22, 2013 is higher than 1,365.74, but lower than 1,434.71, the notes pay a return equal to the percentage increase in the S&P 500 Index multiplied by 3.0. If on March 22, 2013 the S&P 500 Index level is above the 1,434.71, the notes pay the maximum payout of $11.52. If on March 22, 2013 the S&P 500 Index level is below 1,365.74, investors receive the face value per note reduced by the percentage decline in the reference asset. The notes will pay nothing at maturity if the reference asset declines to zero.

Valuation

This note can be valued as a combination of a note from UBS, a short at-the-money put option, three long at-the-money call options, and three short out-of-the-money call options. The short at-the-money put option exposes investors to any decline in the S&P 500 Index. The three short out-of-the-money call options has the strike price of 1,434.71, and limits the maximum return of the notes beyond the cap level. For reasonable valuation inputs this note was worth $9.40 when it was issued on February 29, 2012 because the value of the options investors gave UBS plus the interest investors would have received on UBS's straight debt was worth $0.60 more than the call 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.

Principal Payback Table

The S&P 500 Index	Note Payoff
0.00	$0.00
136.57	$1.00
273.15	$2.00
409.72	$3.00
546.30	$4.00
682.87	$5.00
819.44	$6.00
956.02	$7.00
1,092.59	$8.00
1,229.17	$9.00
1,365.74	**$10.00**
1,502.31	$11.52
1,638.89	$11.52
1,775.46	$11.52
1,912.04	$11.52
2,048.61	$11.52

**Maturity Payoff Diagram**
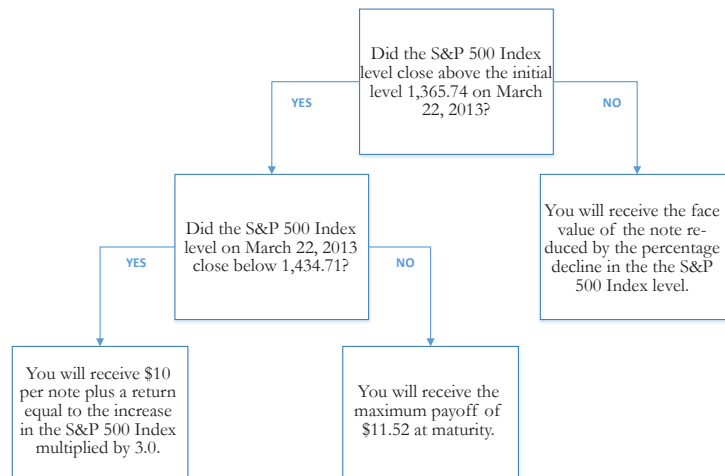
The contingent payoffs of this Return Optimization Security.

Analysis

This Return Optimization Security pays investors the increase in the S&P 500 Index multiplied by 3.0 capped at 15.15%, 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 Return Optimization Security 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 Return Optimization Security 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
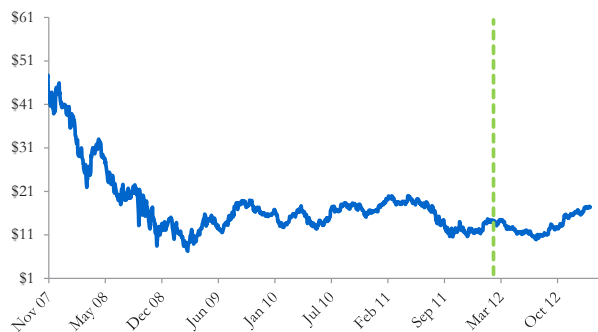
The graph above shows the adjusted closing price of the issuer UBS for the past several years. The stock price of the issuer is an indication of the financial strength of UBS. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

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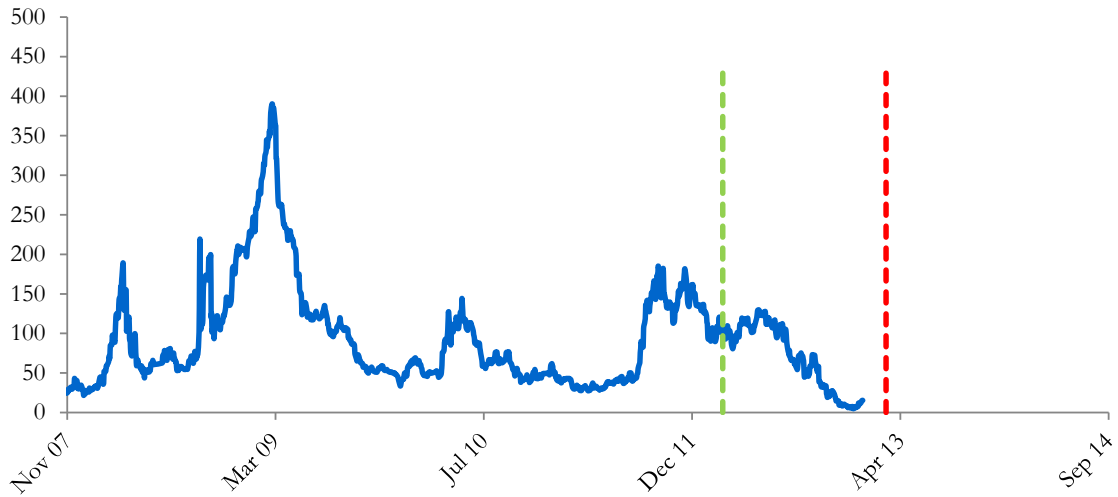
Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as UBS. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower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

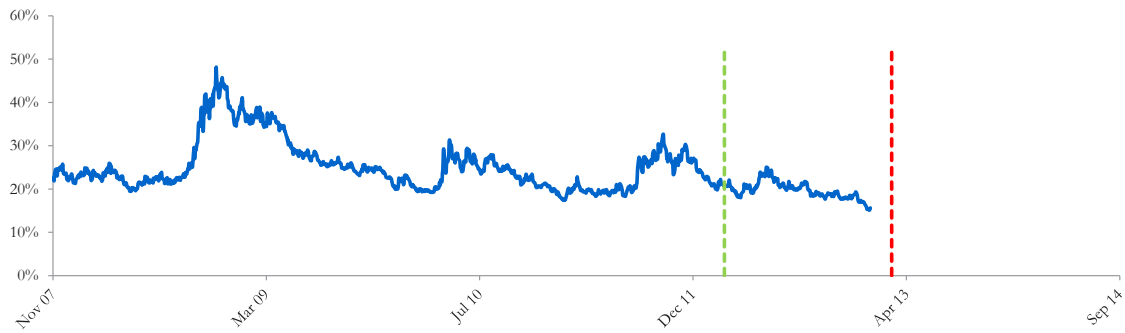**The S&P 500 Index Level**
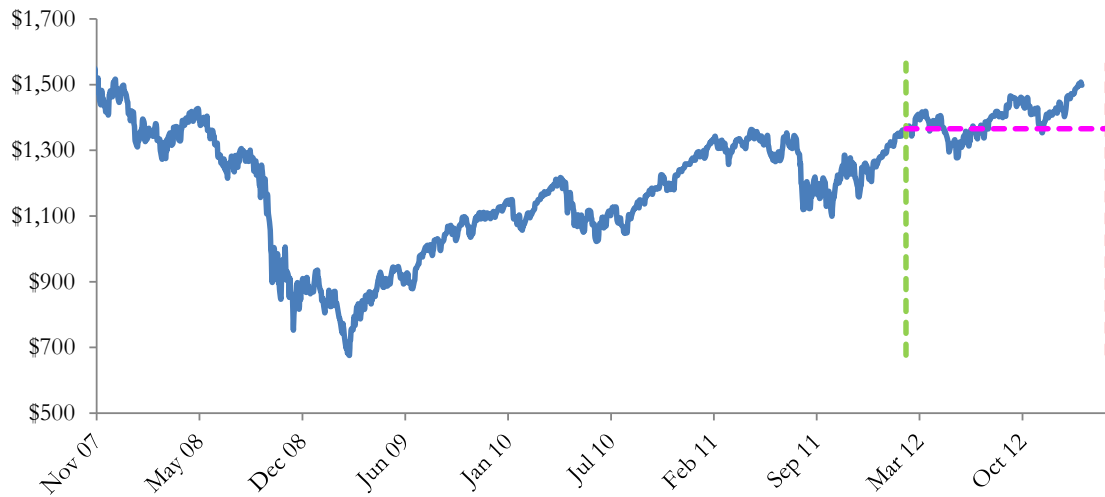
The graph above shows the historical levels of the S&P 500 Index for the past several years. The final payoff of this note is determined by the S&P 500 Index level at maturity. Higher fluctuations in the S&P 500 Index level correspond to a greater uncertainty in the final payout of this Return Optimization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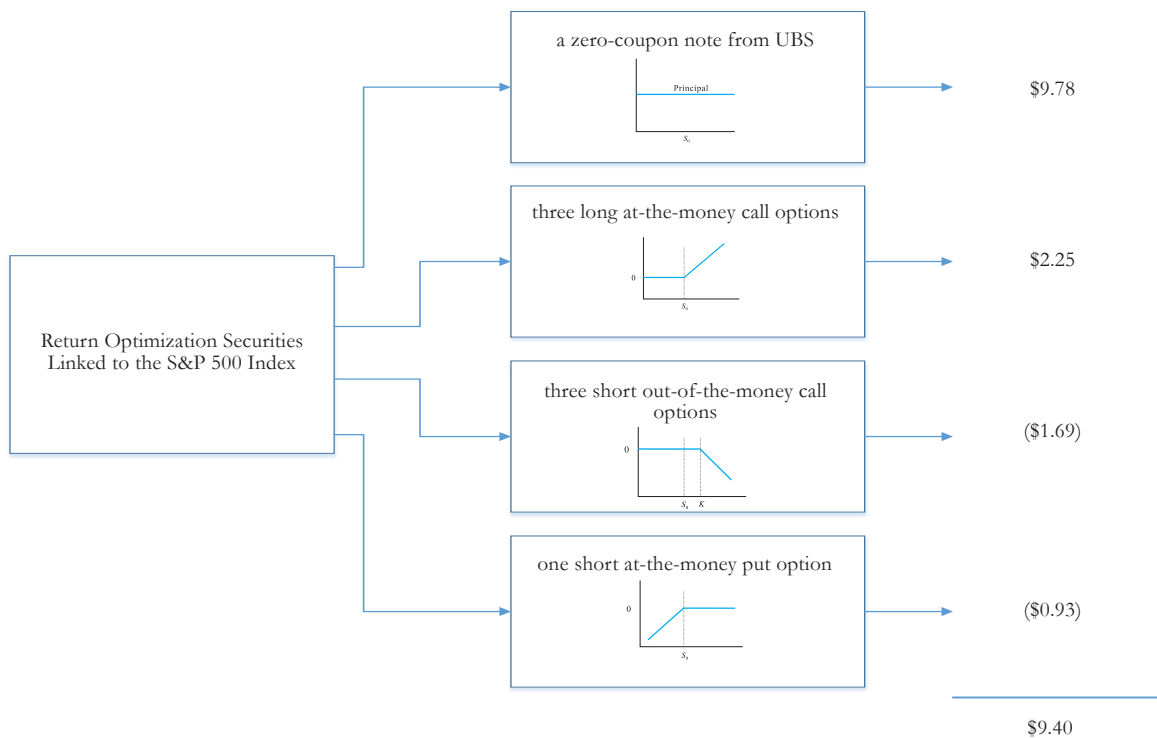
Realized Payoff

This product will mature on March 28, 2013.

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

The annualized implied volatility of the S&P 500 Index on February 24, 2012 was 20.93%, meaning that options contracts on the S&P 500 Index were trading at prices that reflect an expected annual volatility of 20.93%. 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 Return Optimization Security

a zero-coupon note from UBS	$9.78
three long at-the-money call options	$2.25
three short out-of-the-money call options	($1.69)
one short at-the-money put option	($0.93)
	$9.40

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 Return Optimization Security.

1. Delta measures the sensitivity of the price of the note to the the S&P 500 Index level on February 24, 2012.
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 February 24, 2012.
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.