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SUBJECT COMPANY

UBS AG

CIK: [1114446](#) | IRS No.: **000000000** | State of Incorporation: **V8** | Fiscal Year End: **1231**
Type: **FWP** | Act: **34** | File No.: [333-178960](#) | Film No.: **13527280**
SIC: **6021** National commercial banks

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UBS V10 Currency Index with Volatility Cap

Monthly Performance Report - December 2012

- The 'fiscal cliff' negotiations were the headlines for December
- JPY was the worst performer against USD in G10 space and therefore the best performer for the index
- The V10 Index registered a gain of 1.4% at month-end

Index Description

The UBS V10 Currency Index with Volatility Cap ("V10 Strategy", "Index" or "V10") is a proprietary index, developed and sponsored by UBS AG (the "Index Sponsor") that measures the performance of a notional algorithmic trading strategy designed to identify and exploit trends in G10 foreign exchange forward rates. Index levels are published daily on Bloomberg (symbol: UBFSV10V Index).

The trading strategy identifies the 3 highest yielding G10 currencies and the 3 lowest yielding G10 currencies and notionally goes long or short, using foreign exchange forward contracts with tenors up to six months approximately. In lower volatility environments, this trading strategy goes long the highest yielding G10 currencies and short the lowest yielding G10 currencies, which is commonly referred to as the Carry Trade. In higher volatility environments, the strategy reverses this Carry Trade, commonly referred to as a Reverse Carry Trade. The selection of the currencies and the direction of the Carry Trade are rules-based and are determined on a daily basis. Under normal market conditions, the Index allocates 100% to the trading strategy. However, if the trading strategy experiences historical volatility above a certain defined level, the Index will reduce its allocation to the trading strategy below 100%.

Performance Influencing Factors

The index gained 1.4% in the month of December and was up 7.9% in 2012. Index remained in long carry position throughout the month. JPY and NOK were the main contributor to the positive performance of the index for the month with short position in JPY adding 1.5% to the index. JPY depreciated 4.9% against USD during the month. As the deadline for the 'fiscal cliff' approached, a succession of headlines showed that it was questionable whether a bipartisan agreement could be reached in time. However, US policymakers managed to avert the 'fiscal cliff' with a last minute compromise budget. In comparison, during the month of December, the SPXT Excess Return Index increased by 0.9%.

AUD (-0.3%)	It was a relatively quiet month for AUD as it marginally depreciated 0.3% versus USD. Australian employment rose 14k month on month in November, above expectations, for the third consecutive month
NZD (1.0%)	The RBNZ left its Official Cash Rate unchanged at 2.5% with the release of its December Monetary Policy Statement. On the global outlook, the RBNZ still views prospects as 'soft' but, importantly, 'less threatening' than earlier in the year
NOK (1.9%)	The krone remained strong in the month of December appreciating 1.9% against USD backed by a period of very solid growth and subdued inflation
CHF (1.4%)	The CHF continued to appreciate against USD and has gained about 6.7% since July end. The SNB's December Monetary Policy Assessment went very much in line with the market expectations, with the 3m CHF Libor target band of 0.00 - 0.25% and minimum EURCHF rate of 1.20 both left intact
JPY (-4.9%)	JPY depreciated 4.9% against USD during the month. At its policy meeting in December, the BoJ eased further by expanding its Asset-Purchase Program currently at Yen 91 trillion to Yen 101 trillion
EUR (1.6%)	The ECB remains less dovish than most other major central banks. This month the hawkish camp won the argument to keep rates unchanged despite sharp downward growth and inflation revision
USD	The 'fiscal cliff' negotiations were the headlines for USD in month of December. In its final policy decision of 2012, the FOMC added purchases of \$45bn per month in longer-dated Treasury securities to its balance sheet upon the expiration of Operation Twist

Source: UBS Research, UBS

Currency	Spot ¹	Contr ²	Currency	Spot ¹	Contr ²
NZD	1.0%	0.2%	CHF	1.4%	-0.5%
AUD	-0.3%	0.0%	JPY	-4.9%	1.5%
NOK	1.9%	0.7%	EUR	1.6%	-0.6%

Source: UBS, UBS Research

Date	Signal	High Yielding	Low Yielding
30-Nov-12	Long	AUD, NOK, NZD	CHF, JPY, EUR
31-Dec-12	Long	AUD, NOK, NZD	CHF, JPY, EUR

* There were no signal changes during the month

Source: UBS. Note: For illustration purposes only;

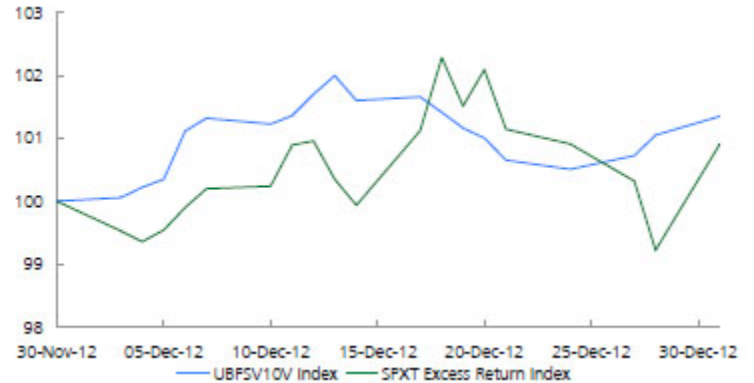
SPXT excess return calculated by subtracting 3 month US Treasury Bill rate from the index return on a daily basis

Past performance is not an indication of future performance.

1) Spot performance of currency from 30 November 2012 to 31 December 2012 relative to USD. Individual currency performance is intended to explain only the performance of that currency relative to the USD and may not fully explain the movement of the Index over the period.

2) Contribution to the Index return over the period resulting from the performance of the individual currency.

Graph 1: V10 and S&P 500 performance in December 2012





For additional information please contact your Financial Advisor

Index performance

The following table/graphs show the performance of the Index, the periods of Reverse Carry Trade, the 65-day historical volatility and the volatility filter from 6 May 2009 through 31 December 2012

The historical level, the periods of Reverse Carry Trade, volatility of the Index and volatility filter levels should not be taken as an indication of future performance, and no assurance can be given as to the Index level on any given date.

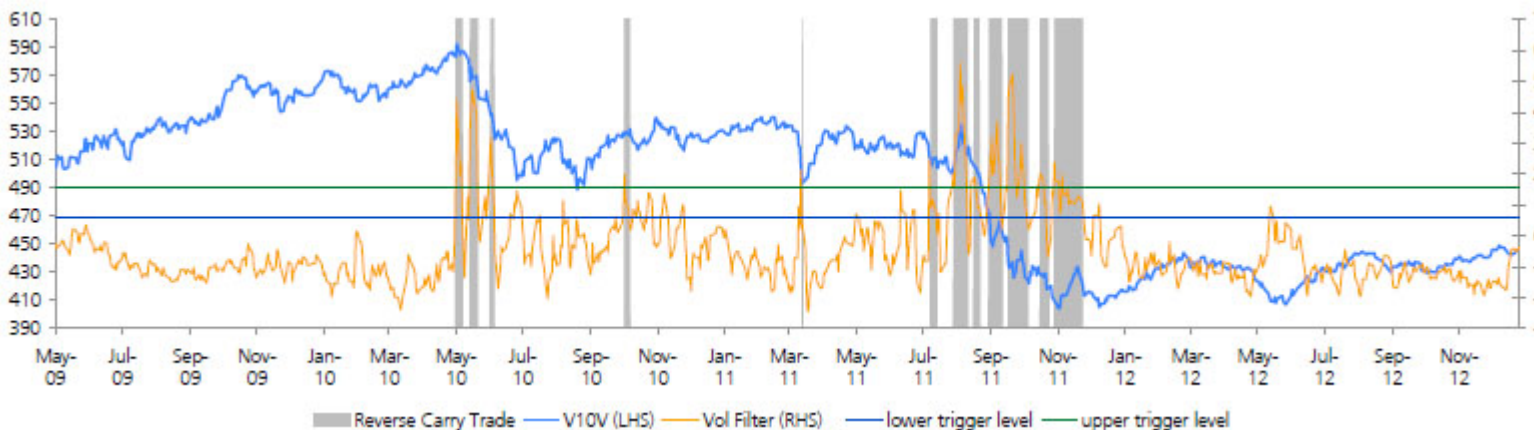
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2009					2.1%	3.1%	-0.5%	0.9%	2.3%	2.8%	-3.0%	3.0%	11.1%
2010	-0.2%	-1.1%	2.8%	2.9%	-5.4%	-8.9%	2.3%	-4.7%	7.0%	-0.8%	-1.2%	2.6%	-5.6%
2011	0.2%	1.0%	-4.0%	3.7%	-1.3%	0.0%	-4.4%	-3.4%	-9.8%	-4.2%	-1.5%	0.0%	-22.0%
2012	3.3%	3.9%	-1.8%	-0.9%	-5.6%	5.3%	2.5%	-1.1%	0.4%	-0.3%	1.1%	1.4%	7.9%

Source: UBS

Index performance and 65 day actual volatility



Index performance and volatility filter





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Performance of products linked to the V10 Currency Index

The following table shows current V10-linked offerings and their respective performance based on the daily indicative bid price for a \$10 par value security at month-end for the three months ending December 2012.

Historical price levels are indicative. Past performance should not be taken as an indication of future performance, and no assurance can be given as to the performance of any product on any given day. The total return below is calculated using the December 2012 indicative bid price provided by UBS relative to the public issuance price of \$10 per security. The actual return that any investor may realize if they were able to sell their product prior to expiry will depend on the actual bid price, if any, at the time of sale, which may differ substantially from the indicative bid prices provided herein, and from the expected payment at maturity based on the terms of the product.

Products and their monthly performance							
ISIN	Product Description	Trade Date	Expiry Date	Oct-12	Nov-12	Dec-12	Total Return ¹
US9026616022	Performance Securities, 115%	23-Dec-09	24-Dec-12	7.75	7.82	7.88*	-21.2%
US9026616857	Performance Securities, 115%	04-Jan-10	03-Jan-13	7.59	7.67	7.72	-22.8%
US9026617012	Performance Securities, 115%	26-Jan-10	24-Jan-13	7.72	7.80	7.85	-21.5%
US9026617764	Performance Securities, 115%	23-Feb-10	25-Feb-13	7.65	7.72	7.78	-22.2%
US9026618184	Performance Securities, 110%	26-Mar-10	25-Mar-13	7.62	7.70	7.76	-22.4%
US9026618424	Performance Securities, 108%	27-Apr-10	25-Apr-13	7.40	7.47	7.53	-24.7%
US9026618838	Performance Securities, 109%	25-May-10	22-May-13	7.53	7.61	7.68	-23.2%
US9026691421	Performance Securities, 108%	25-Jun-10	25-Jun-13	8.28	8.36	8.44	-15.6%
US9026691918	Performance Securities, 116%	27-Sep-10	25-Sep-13	8.16	8.27	8.31	-18.9%
US9026692171	Performance Securities, 110%	26-Oct-10	25-Oct-13	8.19	8.29	8.34	-18.6%
US9026692254	Performance Securities, 111%	24-Nov-10	27-May-14	8.08	8.19	8.23	-19.9%

* Till 24 dec 2012

1) Total return in the above table is not annualized

Source: UBS Price data taken from UBS internal systems

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