

Fourth Quarter 2010

8 February 2011

Dear shareholders,

During 2010 we made progress in improving our financial performance. We generated a net profit attributable to UBS shareholders of CHF 7.2 billion in 2010, a significant improvement over the net loss we recorded in 2009. We ended 2010 with an industry-leading BIS tier 1 capital ratio of 17.7%. Client confidence in our business is growing, as demonstrated by increased business volumes as well as improvements in net new money. During 2010 net new money stabilized, and we achieved net inflows for the Group as a whole over the last two quarters of the year. We also continued to control our costs and achieved our CHF 20 billion fixed costs target for the year. While we made clear progress in 2010, we are under no illusion. We will build on the achievements of 2010 and continue to work hard to improve our results.

For the fourth quarter of 2010, net profit attributable to UBS shareholders was CHF 1.3 billion compared with CHF 1.7 billion in the third quarter as we recorded significantly lower tax credits than in the previous quarter. Profit before tax was CHF 1,161 million compared with CHF 818 million in the third quarter. This improvement reflects increased client activity across all of our businesses, but was tempered by higher credit loss expenses, own credit losses and increased litigation provisions. Group operating income for the quarter was up by 7% compared with the third quarter, driven mainly by increased revenue in our Investment Banking Department. Operating expenses were a little under CHF 6 billion, a modest increase on the third quarter.

In our **Wealth Management** business, pre-tax profit was CHF 488 million, little changed from the previous quarter. Revenues increased as brokerage and trading income improved from the low levels seen in the previous quarter. Expenses increased by 4% mainly due to a CHF 40 million charge to reimburse the Swiss government for costs incurred in connection with the US cross-border matter. The gross margin was 92 basis points, up from 89 basis points in the prior quarter, reflecting increased revenues and a slight reduction in the average invested asset base. Despite strong investment performance, invested assets declined 2% as the Swiss franc strengthened against the euro and US dollar. Over 60% of Wealth Management's invested assets are denominated in either euros or US dollars. Overall, net new money stabilized in the second half of 2010 with continued strong net inflows from the Asia Pacific region and globally from ultra high net worth clients.

Retail & Corporate's revenues remained stable in the fourth quarter. However, the pre-tax profit of CHF 387 million reflected increased net credit loss expenses of CHF 63 million. Notwithstanding these credit losses in the quarter, for 2010 as a whole we experienced relatively low levels of credit losses. The net credit loss expense for 2010 was CHF 76 million, a decline of over CHF 100 million compared with 2009, reflecting the quality of our credit portfolio.

Wealth Management Americas' revenues increased by 3% due to higher transactional revenues on increased client activity. Managed account fees also increased. Despite this positive revenue momentum, we recorded a pre-tax loss of CHF 33 million compared with a pre-tax loss of CHF 47 million in the third quarter, mainly as a result of increased litigation provisions. Net new money improved considerably, with net inflows in the fourth quarter of CHF 3.4 billion compared with CHF 0.3 billion in the previous quarter. Including interest and dividend income, Wealth Management Americas' net new money inflows were CHF 8.8 billion compared with inflows of CHF 4.6 billion in the prior quarter.

In **Global Asset Management** pre-tax profit increased to CHF 135 million, an 18% increase on the third quarter. Revenues were higher across all of our business lines with sustained improvements in investment performance, particularly in alternative and quantitative investments, which contributed most of the revenue improvement. Costs increased on higher personnel expenses. Net new money inflows from third-party channels increased to CHF 3.8 billion compared with CHF 1.5 billion in the prior quarter, mostly offset by net outflows of CHF 2.8 billion from clients of our wealth management businesses.

In the fourth quarter, we continued to see results which, while improved, remain unsatisfactory in relation to our ambitions for the **Investment Bank**. We recorded a pre-tax profit of CHF 75 million, a result affected by an own credit loss of CHF 509 million reflecting in part the tightening of our credit spreads over the quarter. The fourth quarter result compares favorably with the third quarter which saw a pre-tax loss of CHF 406 million, including an own credit loss of CHF 387 million. Revenues increased by 17% to CHF 2.2 billion as client activity levels increased. This was particularly evident in the Investment Banking Department where revenues were up by nearly CHF 500 million, reflecting an increase in equity capital market activity, improved market share and higher advisory revenues. In equities, revenues rose by 5% as the cash and derivatives and equity-linked businesses all recorded increases. In our fixed income, currencies and commodities business, revenues increased by 6% compared with the very low lev-

els seen in the third quarter. In particular, our foreign exchange business reported improved revenues on higher volumes and volatility. Expenses declined by 7% compared with the third quarter mainly due to reduced personnel expenses. The result also included net credit loss expenses of CHF 108 million, compared with a recovery of CHF 35 million in the third quarter, reflecting, among other things, impairments in our student loan auction rate securities portfolio.

Our BIS tier 1 capital ratio improved for the seventh consecutive quarter and stood at 17.7% on 31 December 2010, compared with 16.7% at the end of the third quarter. Our core tier 1 capital ratio also improved further to 15.3% compared with 14.2% on 30 September 2010. Risk-weighted assets decreased by CHF 9 billion, mainly due to foreign exchange movements. Our balance sheet decreased by CHF 143 billion largely due to changes in replacement values.

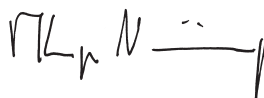
In December 2010, the Swiss Federal Council announced draft recommendations in relation to proposed legislation that is designed to address the “too big to fail” issue. A consultation process is currently under way and will end in March. The Federal Council is expected to present its final recommendations to both chambers of the Swiss parliament for debate later in the year. We are evaluating the impact of these proposals as well as the effects of other legislative and regulatory changes worldwide. We will continue to assess the impact of new capital standards and other regulatory requirements on the profitability of each of our businesses, and, where necessary, we will take the appropriate action. As previously stated, we will retain earnings in order to meet the recommended future capital requirements and, as a result, we do not intend to pay a dividend for 2010 or for some time to come.

In recent years, we have fundamentally reshaped our approach to employee compensation. Our foremost priority is to encourage and reward behavior that contributes to the sustainable profitability and the long-term success of our firm. In order to align employee incentives with the interests of our shareholders, we pay a significant part of our employees' com-


pensation in the form of deferred awards, mostly in UBS shares, which are subject to claw-back provisions. Above total compensation of CHF 250,000, each employee will receive at least 60% of his or her bonus in shares deferred over three years. Awards are subject to claw-back provisions including the forfeiture of shares if the employee commits acts against the interests of UBS. The compensation of certain senior staff is also subject to vesting conditions that require profitability. In the case of Group Executive Board members, over 75% of any bonus will be deferred and may be subject to forfeiture as well as profitability conditions for periods of up to five years. In 2010 we reduced the bonus pool by 10% to CHF 4.3 billion, compared with CHF 4.8 billion in 2009.

Outlook – In the first quarter we expect some improvement in the Investment Bank's trading results compared with the two prior quarters, but this will as always largely depend upon market conditions and the volume of business that our customers transact with us. We do expect the investments we have been making in certain of our securities trading operations to bear fruit during 2011. The Investment Banking Department (IBD) has a promising book of financial advisory business. For the coming quarter, however, we do not expect IBD to match its seasonally strong fourth quarter result, at least not in its advisory business. In our wealth and asset management divisions, we expect client activity in the first quarter to be above fourth quarter levels, supporting transaction-based revenue in those divisions. We are optimistic that overall positive net new money inflows will continue in the first quarter. For the full year, we believe that net new money will strengthen noticeably.

Yours sincerely,



Kaspar Villiger
Chairman of the Board
of Directors

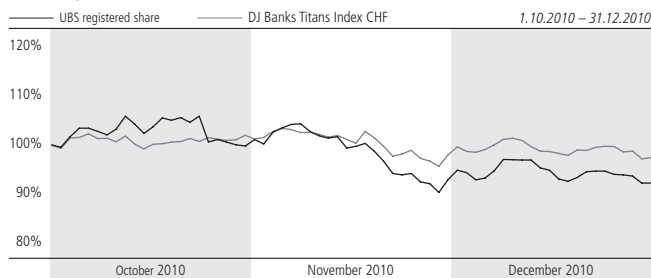


Oswald J. Grübel
Group Chief Executive Officer

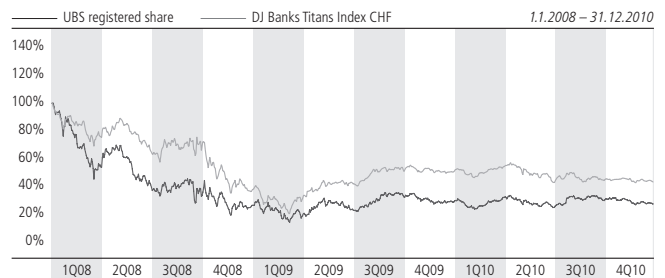
Our key figures for the fourth quarter 2010

UBS share performance

Fourth quarter 2010



Since 2008



Group results

CHF million, except where indicated	For the quarter ended			Year-to-date	
	31.12.10	30.9.10	31.12.09	31.12.10	31.12.09
Operating income	7,122	6,658	6,095	31,975	22,601
Operating expenses	5,962	5,840	5,183	24,573	25,162
Operating profit from continuing operations before tax	1,161	818	912	7,402	(2,561)
Net profit attributable to UBS shareholders	1,290	1,664	1,205	7,161	(2,736)
Diluted earnings per share (CHF) ¹	0.33	0.43	0.31	1.87	(0.75)

¹ Refer to "Note 8 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of the fourth quarter 2010 report.

Key performance indicators, balance sheet and capital management¹

In %, except where indicated	For the quarter ended			Year-to-date	
	31.12.10	30.9.10	31.12.09	31.12.10	31.12.09
Performance					
Return on equity (RoE)				15.9	(7.8)
Return on risk-weighted assets, gross				15.5	9.9
Return on assets, gross				2.3	1.5
Growth					
Net profit growth ²	(22.5)	(17.0)	N/A	N/A	N/A
Net new money (CHF billion) ³	7.1	1.2	(56.2)	(14.3)	(147.3)
Efficiency					
Cost/income ratio	81.8	88.1	83.9	76.7	103.0

CHF million, except where indicated	As of		
	31.12.10	30.9.10	31.12.09
Capital strength			
BIS tier 1 ratio (%) ⁴	17.7	16.7	15.4
FINMA leverage ratio (%) ⁴	4.44	4.40	3.93
Balance sheet and capital management			
Total assets	1,317,223	1,460,509	1,340,538
Equity attributable to UBS shareholders	46,760	47,713	41,013
BIS total ratio (%) ⁴	20.4	20.2	19.8
BIS risk-weighted assets ⁴	198,875	208,289	206,525
BIS tier 1 capital ⁴	35,272	34,817	31,798

¹ For the definitions of our key performance indicators refer to the "Measurement and analysis of performance" section on page 33 of our Annual Report 2009. ² Not meaningful if either the current period or the comparison period is a loss period. ³ Excludes interest and dividend income. ⁴ Refer to the "Capital management" section of the fourth quarter 2010 report.

Reporting by business division

CHF million	Total operating income			Total operating expenses			Performance before tax from continuing operations			
	For the quarter ended	31.12.10	30.9.10	% change	31.12.10	30.9.10	% change	31.12.10	30.9.10	% change
Wealth Management		1,803	1,759	3	1,315	1,267	4	488	492	(1)
Retail & Corporate		931	966	(4)	544	520	5	387	446	(13)
Wealth Management & Swiss Bank		2,734	2,725	0	1,859	1,787	4	875	938	(7)
Wealth Management Americas		1,379	1,338	3	1,412	1,384	2	(33)	(47)	30
Global Asset Management		542	473	15	407	359	13	135	114	18
Investment Bank		2,158	1,842	17	2,084	2,248	(7)	75	(406)	
Treasury activities and other corporate items		308	280	10	200	61	228	109	219	(50)
UBS		7,122	6,658	7	5,962	5,840	2	1,161	818	42

Additional information

CHF million, except where indicated	As of		
	31.12.10	30.9.10	31.12.09
Invested assets (CHF billion)	2,152	2,180	2,233
Personnel (full-time equivalents)	64,617	64,583	65,233
Market capitalization ¹	58,803	63,898	57,108

¹ Refer to the appendix "UBS registered shares" of the fourth quarter 2010 report.

Cautionary Statement Regarding Forward-Looking Statements | This document contains statements that constitute "forward-looking statements", including but not limited to management's outlook for UBS's financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS's business and future development. While these forward-looking statements represent UBS's judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's expectations. These factors include, but are not limited to: (1) future developments in the markets in which UBS operates or to which it is exposed, including movements in securities markets, credit spreads, currency exchange rates and interest rates and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS's clients and counterparties; (2) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings; (3) the ability of UBS to retain earnings and reduce its risk-weighted assets in order to comply with recommended Swiss capital requirements without adversely affecting its business; (4) changes in financial regulation in Switzerland, the US, the UK and other major financial centers which may impose constraints on or necessitate changes in the scope and location of UBS's business activities and in its legal and booking structures, including the imposition of more stringent capital and liquidity requirements, incremental tax requirements and constraints on remuneration, some of which may affect UBS in a different manner or degree than they affect competing institutions; (5) the liability to which UBS may be exposed due to legal claims and regulatory investigations, including those stemming from market dislocation and losses incurred by clients and counterparties during the financial crisis; (6) the outcome and possible consequences of pending or future inquiries or actions concerning UBS's cross-border banking business by tax or regulatory authorities in various jurisdictions; (7) the degree to which UBS is successful in effecting organizational changes and implementing strategic plans, and whether those changes and plans will have the effects intended; (8) UBS's ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses; (9) changes in accounting standards or policies, and accounting determinations affecting the recognition of gain or loss, the valuation of goodwill and other matters; (10) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (11) changes in the size, capabilities and effectiveness of UBS's competitors, including whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; and (12) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures, either within UBS or within a counterparty. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS's Annual Report on Form 20-F for the year ended 31 December 2009. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.