

# Third Quarter 2010

26 October 2010

Dear shareholders,

**For the third quarter of 2010 we report a net profit attributable to UBS shareholders of CHF 1,664 million, or diluted earnings per share of CHF 0.43.** So far in 2010 we have earned profits of CHF 5,871 million, making year-to-date earnings per share of CHF 1.53. The third quarter was unusual in that there were very low levels of client activity as well as a strengthening of the Swiss franc against most major currencies. Our businesses are highly sensitive to these factors, with the result that revenues declined to CHF 6,658 million from CHF 9,185 million in the second quarter. We responded by reducing costs, which declined by CHF 731 million compared with the second quarter. Our focus on cost discipline remains a priority, with our fixed costs run-rate remaining on course to meet our 2010 target of CHF 20 billion. The net profit attributable to UBS shareholders was materially affected by a net tax credit of CHF 825 million.

Revenues in our **Wealth Management** business declined 7% compared with the second quarter. The revenues were affected by unusually low client activity, a decline in fee income on a lower average invested asset base and the effects of currency movements. Consequently, the gross margin on invested assets decreased 6 basis points to 89 basis points. Costs increased slightly, mainly due to higher general and administrative expenses, including a lease termination provision. The pre-tax profit declined to CHF 492 million compared with CHF 658 million in the second quarter. Net new money inflows were CHF 1.0 billion. We continued to attract net new money from our clients in the Asia Pacific region as well as globally from ultra high net worth clients.

**Retail & Corporate's** revenues declined slightly due to tighter interest rate margins and lower brokerage income. Costs continued to be tightly managed and were little changed from the prior quarter. The third quarter pre-tax profit was CHF 446 million compared with CHF 473 million in the second quarter.

In the third quarter, **Wealth Management Americas'** revenues declined 10%, mainly due to currency movements as well as lower income resulting from lower managed account fees. Operating expenses decreased 11% to CHF 1,384 million. Wealth Management Americas reported a pre-tax loss of CHF 47 million compared with a pre-tax loss of CHF 67 million in the second quarter. The third quarter result included a provision of CHF 78 million due to an unexpected result in an arbitration matter. There were modest net new money inflows compared with outflows in the previous quarter.

**Global Asset Management's** pre-tax profit remained stable at CHF 114 million. Revenues were CHF 473 million compared with CHF 522 million in the second quarter, as management fees declined due to lower average invested assets, as well as lower fees in global real estate. Expenses decreased 11%, partly due to the strengthening of the Swiss franc and reduced personnel expenses.

**The Investment Bank** recorded a pre-tax loss of CHF 406 million in the third quarter. Lower revenues, particularly in the securities businesses, reflect subdued client activity levels and low market volumes. The result also included an own credit loss on financial liabilities designated at fair value of CHF 387 million, compared with a gain of CHF 595 million in the prior quarter. Excluding the impact of own credit, revenues decreased 36%. Revenues in the fixed income, currencies and commodities business declined compared with the second quarter. The credit business delivered good results, with increased revenues reflecting a strong performance in new issues of structured products as well as increased trading volumes. This was more than offset by weaker results in our foreign exchange and rates businesses due to reduced volumes. Equities revenues decreased compared with the second quarter, reflecting subdued investor demand, most notably in cash and derivatives. Costs were down 19% from the previous quarter, mostly due to lower personnel expenses. We remain confident that we are taking the right steps to deliver on our mid-term goals.

**There was a continued improvement in our BIS tier 1 capital ratio, which increased to 16.7% compared with 16.4% at the end of the second quarter,** and in our core tier 1 capital ratio, which increased to 14.2% from 13.0% over the same period. Our risk-weighted assets increased marginally, with increases in market and operational risk being offset by declines in credit risk, while our balance sheet remained fairly stable at CHF 1,461 billion.

**As a global leader in wealth management, we have relationships with many of the world's wealthiest families.** Their needs are often complex, requiring highly specialized services on a global basis. In order to serve our clients better, we have established the UBS Global Family Office Group. This dedicated unit, a joint venture between Wealth Management and the Investment Bank, will provide a cross-divisional platform to allow the delivery of integrated products and services, ensuring that our clients benefit fully from all that UBS has to offer.

**Over the past twelve months we have delivered on our commitment to improve our financial performance.** Our clients have rewarded our success by showing greater confi-

dence in our business, our people and the new UBS. Building on this momentum, we have launched the first global UBS brand campaign in over two years. The "We will not rest" campaign conveys our commitment and focus on our clients at every level of the organization. In addition, we have agreed to become a global partner of Formula 1, the most prestigious motor racing competition, and one of the most-watched sports in the world. The sponsorship of Formula 1 will raise our brand awareness, particularly in emerging markets where many of our growth opportunities lie.

**As part of our commitment to transparency, and in response to a recommendation by the control committees of the Swiss Federal Assembly, we have recently published our "Transparency report to the shareholders of UBS AG".** The report reviews the events connected with the losses incurred during the financial market crisis and issues related to the cross-border US wealth management business. It also summarizes the changes we have already made, including an almost entirely new management team, stronger governance structures and a revised strategy, and explains why the Board of Directors decided not to initiate legal proceedings against former management.

**On 12 September 2010, the Bank for International Settlements announced higher global minimum standards designed to strengthen existing capital requirements for banks, known as Basel III.** The new standards are expected to be ratified by the G20 in November. Applying the new Basel III standards, our current risk-weighted assets are estimated to be significantly higher than under the current Basel II standards. We plan to take steps to mitigate the effects of the proposed changes. In early October the Swiss Federal Council's Commission of Experts issued a report recommending that capital requirements for the two major Swiss banks be set at a significantly higher level than those under the Basel III proposal. The Swiss regulatory authority FINMA has expressed its support for the Commission's recommendations, and expects draft legislation to be proposed to the Swiss Parliament in early 2011. We intend to retain earnings in order to meet the expected new capital requirements well in advance of the full implementation deadline of 2018.

**In light of the continuing growth of our market leading investment bank and wealth management businesses** in the Asia Pacific region, we welcome the announcement that Joseph Yam, founder and former Chief Executive of the Hong Kong Monetary Authority, has been nominated for election to the Board of Directors. His expected appointment, following the 2011 Annual General Meeting, should further strengthen UBS's Board of Directors, allowing us to benefit from Mr. Yam's considerable experience, and providing additional momentum to our continuing growth in the region.

**In relation to the US cross-border matter, the US Department of Justice has moved to dismiss all of the previously filed charges that had been deferred under the Deferred Prosecution Agreement.** Accordingly, and in recognition of the Swiss Government's commitment to a fixed delivery schedule for the remaining US accounts under its agreement with the United States, the US Internal Revenue Service has confirmed that it will withdraw with prejudice the remaining portion of the John Doe summons on 15 November 2010. These are the final steps to resolve this matter completely.

**Outlook** – Following the unusually low client activity levels seen in the third quarter, we are optimistic that an uptick in the fourth quarter will benefit all of our business divisions. We therefore expect some improvement in transaction-based revenue in our wealth management businesses and in the flow businesses of the Investment Bank. We also expect our wealth management units' return on invested assets to improve to some degree over the fourth quarter and expect our investment banking business to benefit from an increase in corporate transactions before year-end. We believe that we are on track to achieve our medium-term targets, and will provide an update on our progress at our Investor Day on 16 November 2010.

Yours sincerely,



Kaspar Villiger  
Chairman of the Board  
of Directors

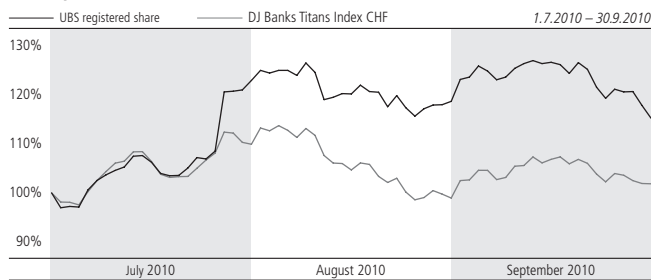


Oswald J. Grübel  
Group Chief Executive Officer

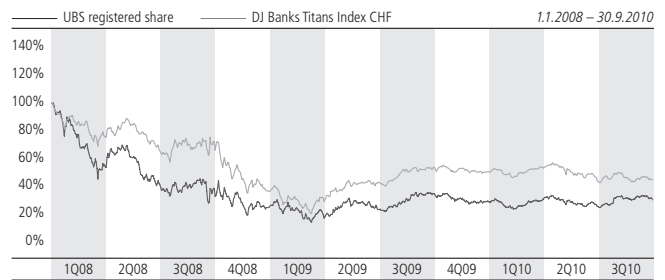
# Our key figures for the third quarter 2010

## UBS share performance

### Third quarter 2010



### Since 2008



## Group results

CHF million, except where indicated	For the quarter ended			Year-to-date	
	30.9.10	30.6.10	30.9.09	30.9.10	30.9.09
Operating income	6,658	9,185	5,766	24,853	16,506
Operating expenses	5,840	6,571	6,359	18,611	19,980
Operating profit before tax (from continuing operations)	818	2,614	(593)	6,242	(3,474)
Net profit attributable to UBS shareholders	1,664	2,005	(564)	5,871	(3,941)
Diluted earnings per share (CHF) <sup>1</sup>	0.43	0.52	(0.15)	1.53	(1.09)

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

## Key performance indicators, balance sheet and capital management<sup>1</sup>

In %, except where indicated	For the quarter ended			Year-to-date	
	30.9.10	30.6.10	30.9.09	30.9.10	30.9.09
<b>Performance</b>					
Return on equity (RoE)				17.6	(15.6)
Return on risk-weighted assets, gross				15.9	9.3
Return on assets, gross				2.3	1.4
<b>Growth</b>					
Net profit growth <sup>2</sup>	(17.0)	(8.9)	N/A	N/A	N/A
Net new money (CHF billion) <sup>3</sup>	1.2	(4.7)	(36.7)	(21.4)	(91.1)
<b>Efficiency</b>					
Cost/income ratio	88.1	71.2	106.1	75.2	109.4

CHF million, except where indicated	As of		
	30.9.10	30.6.10	31.12.09
<b>Capital strength</b>			
BIS tier 1 ratio (%) <sup>4</sup>	16.7	16.4	15.4
FINMA leverage ratio (%) <sup>4</sup>	4.40	4.12	3.93

<b>Balance sheet and capital management</b>			
Total assets	1,460,509	1,458,223	1,340,538
Equity attributable to UBS shareholders	47,713	46,017	41,013
BIS total ratio (%) <sup>4</sup>	20.2	20.4	19.8
BIS risk-weighted assets <sup>4</sup>	208,289	204,848	206,525
BIS tier 1 capital <sup>4</sup>	34,817	33,685	31,798

<sup>1</sup> 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. <sup>2</sup> Not meaningful if either the current period or the comparison period is a loss period. <sup>3</sup> Excludes interest and dividend income. <sup>4</sup> Refer to the "Capital management" section of the third quarter 2010 report.

## Reporting by business division

CHF million	Total operating income			Total operating expenses			Performance before tax from continuing operations		
	30.9.10	30.6.10	% change	30.9.10	30.6.10	% change	30.9.10	30.6.10	% change
For the quarter ended	<b>30.9.10</b>	30.6.10	% change	<b>30.9.10</b>	30.6.10	% change	<b>30.9.10</b>	30.6.10	% change
Wealth Management	<b>1,759</b>	1,891	(7)	<b>1,267</b>	1,232	3	<b>492</b>	658	(25)
Retail & Corporate	<b>966</b>	995	(3)	<b>520</b>	522	0	<b>446</b>	473	(6)
Wealth Management & Swiss Bank	<b>2,725</b>	2,886	(6)	<b>1,787</b>	1,754	2	<b>938</b>	1,131	(17)
Wealth Management Americas	<b>1,338</b>	1,485	(10)	<b>1,384</b>	1,552	(11)	<b>(47)</b>	(67)	30
Global Asset Management	<b>473</b>	522	(9)	<b>359</b>	405	(11)	<b>114</b>	117	(3)
Investment Bank	<b>1,842</b>	4,101	(55)	<b>2,248</b>	2,788	(19)	<b>(406)</b>	1,314	
Treasury activities and other corporate items	<b>280</b>	191	47	<b>61</b>	72	(15)	<b>219</b>	119	84
<b>UBS</b>	<b>6,658</b>	9,185	(28)	<b>5,840</b>	6,571	(11)	<b>818</b>	2,614	(69)

## Additional information

CHF million, except where indicated	As of		
	30.9.10	30.6.10	31.12.09
Invested assets (CHF billion)	<b>2,180</b>	2,180	2,233
Personnel (full-time equivalents)	<b>64,583</b>	63,876	65,233
Market capitalization <sup>6</sup>	<b>63,898</b>	55,393	57,108

<sup>1</sup> Refer to the appendix "UBS registered shares" of the third 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; (2) the effect of the current economic environment or other developments on the financial position or creditworthiness of UBS's clients and counterparties; (3) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings; (4) 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; (5) other changes and possible prospective changes (announced or unannounced) 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; (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; (12) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures, either within UBS or within a counterparty; and (13) technological developments. 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.