Third Quarter 2012

30 October 2012

Dear Shareholders,

Over the past year, we have made considerable progress in executing the strategy we set out at our Investor Day in November 2011, and we are pleased to report that we are ahead of our plans in terms of building our capital strength and reducing costs and risk-weighted assets. Our strategy is centered on our preeminent wealth management businesses and our number-one Swiss universal bank, complemented by Global Asset Management and the Investment Bank. It builds on the core strengths of all of these businesses and is underpinned by our industry-leading capital position. This is the strategy that best allows us to focus on serving our clients and delivering on our commitment to build a business with sustainable and attractive returns for our shareholders.

On the date of publication of this letter, we announced a significant acceleration in the implementation of our strategy to transform the firm to create the UBS of the future. Building on the progress we have already made, we will achieve this transformation by further sharpening our focus in the Investment Bank, reducing costs significantly and driving further efficiencies more rapidly.

Our Investment Bank will continue to serve its corporate, sovereign, institutional and financial sponsor clients, underpinned by the thought leadership we derive from our premier research franchise, our long-term success in Advisory, and our state-of-the-art execution capabilities in Equities, FX and Precious Metals. In order to be successful, our Investment Bank must first be strong and successful in meeting the needs of its clients and must also support sustained growth in the Group by acting as a strong partner to all of our businesses. Achieving this will give the Group a competitive advantage. We believe all the actions we are taking support this objective. However, we will no longer operate to any significant extent in businesses where risk-adjusted returns cannot meet their cost of capital sustainably or in those with high operational complexity or long tail risks likely to weigh on future returns.

In addition to reshaping our Investment Bank, we have also announced a Group-wide program to drive long-term efficiencies through simplified systems and processes and reduced complexity. This will enable us to service our clients with greater agility, speed and improved product quality while at the same time reducing our operational risks and costs. Regrettably, there will be an impact on our staff numbers and we envisage that by 2015 the firm is more likely to have around 54,000 staff. These have been difficult decisions to make and we will ensure all those affected are treated with care. It will take three years to fully implement these changes, and we anticipate total restructuring costs of approximately CHF 3.3 billion. We expect to achieve total annual sustainable cost savings of CHF 5.4 billion by 2015 including the CHF 2 billion cost savings announced in 2011 and to achieve our Group cost/income ratio target of 60–70% from 2015. For the Group as a whole, we will continue to strengthen our risk, compliance and regulatory functions.

By improving the firm's efficiency, we will free up more resources to reinvest in growth and, over the next two years, we will make investments totalling CHF 1.5 billion across all our businesses. We will continue to build our businesses in Asia Pacific and other emerging markets, with a focus on Wealth Management in particular. We will also continue to invest in highly experienced and productive financial advisors in our Wealth Management Americas business, in our asset management business and in our core Investment Bank disciplines of Advisory, Research, Equities, FX and Precious Metals. In our Retail & Corporate business, we will continue to invest in our private client franchise and in transaction banking.

The net impact of all these changes will be transformational for the firm. We will reduce our funded balance sheet by 30%, or approximately CHF 300 billion, by 2015. Basel III risk-weighted assets for the Group will be reduced by a further CHF 100 billion to around CHF 200 billion by the end of 2017. The Investment Bank will account for less than CHF 70 billion of this. The balances related to exited Investment Bank businesses will be transferred to, and reported in, the Corporate Center from the first quarter of 2013. An experienced team has already been appointed to manage the portfolio to optimize risk and returns over time. This team will manage the sale or exit of these positions within the robust oversight structure that has successfully supported our risk-weighted asset reduction in the Legacy Portfolio. As a result of the actions we are taking, our funding needs will be substantially reduced, and over half of our funding will come from customer deposits, which are more stable and typically less expensive than other potential funding sources.

UBS

As a result of the targets we have announced to further reduce our balance sheet and risk-weighted assets, our capital needs will be significantly lower than previously anticipated. In the future, approximately 65% of the Group's attributed equity excluding the Corporate Center will relate to our wealth and asset management and Retail & Corporate businesses that generate revenues primarily from fees and commissions. This means that our overall earnings should be less volatile, more consistent and of higher quality. As we implement our plans in 2013/14, we expect the Group's return on equity to average in the mid single digits. Thereafter, we believe UBS will be capable of delivering a return on equity of at least 15% from 2015 onwards.

All of our actions support our commitment to deliver sustainable performance and attractive returns to our shareholders, and today we have announced more details on our capital return program. We aim to deliver progressive capital returns to our shareholders until we have fulfilled our capital requirements. Thereafter, we will have flexibility to determine a baseline dividend set at a sustainable level, taking into account the normal cyclicality the business could experience. Where there is scope, we will make supplemental returns, but this will be balanced with our businesses' reinvestment needs or any capital buffer required to support the business in more challenging macroeconomic conditions. However, in future years, we believe we can sustain and grow our business and maintain a prudent capital position with a payout ratio of 50% or more.

Turning to our third-quarter results, we reported an adjusted[1] pre-tax profit of CHF 1.4 billion, as all of our business divisions increased profitability. The reassessment of our strategy for the Investment Bank contributed to us recognizing a goodwill impairment in the third quarter that led to a net loss attributable to UBS shareholders of CHF 2.2 billion. The result also included an own credit charge of CHF 863 million as our credit spreads tightened significantly during the quarter. Neither of these items negatively affected our industry-leading Basel III capital ratios.

We are pleased to report that we ended the quarter with an increased Basel III phased-in common equity tier 1 ratio[2] of 13.6%, and an increased fully applied Basel III common equity tier 1 ratio[2] of 9.3%. Group risk-weighted assets at the end of the quarter were CHF 301 billion, down almost CHF 100 billion in the last 12 months. Our wealth management businesses attracted combined net new money inflows of CHF 12 billion in the quarter, meaning for the first nine months of 2012 we have achieved total inflows of CHF 36 billion. Our clients' actions continue to demonstrate their confidence in the firm and its future, and are a vote of confidence in the successful execution of our strategy.

Wealth Management, Wealth Management Americas and **Retail & Corporate** all delivered strong results and recorded their best quarterly performance of 2012. Wealth Management's pre-tax profit increased 20% to CHF 600 million and Wealth Management Americas achieved its third consecutive record quarterly pre-tax profit at USD 230 million. Illustrating the strength of our businesses, Wealth Management posted its strongest third quarter net new money inflows in five years, and Wealth Management Americas achieved its best year-to-date net new money inflows for five years. Wealth Management attracted inflows of CHF 7.7 billion across all regions, with strong inflows from Asia Pacific and emerging markets, as well as globally from our ultra high net worth clients. We are pleased that Wealth Management Americas' inflows increased to USD 4.8 billion driven by our existing financial advisor force. In Switzerland, our Retail & Corporate business continued to deliver steady results, with pre-tax profit up 3% to CHF 409 million in the quarter and net new business volume growth very high at 7.2% on an annualized basis. **Global Asset Management's** pre-tax profit increased to CHF 124 million reflecting a significant improvement in performance fees in alternative and quantitative investments, particularly in our O'Connor single-manager funds.

On an adjusted basis[1], our **Investment Bank** achieved a pre-tax profit of CHF 178 million with all business areas achieving increased revenues. In IBD, Debt Capital Markets and Advisory significantly improved their market share, with Advisory participating in a third of the quarter's top deals globally. Our Equity Capital Markets business participated in three quarters of the top global deals and significantly increased its market share and rank. In Equities, our Cash business in particular delivered a strong showing on improved trading against a backdrop of the lowest exchange volumes since 2005. Our Derivatives business also improved its market share amid deteriorating market conditions and, despite reduced client activity, volumes and revenues from our FX e-trading platform increased. Pro-forma Basel III risk-weighted assets were reduced by a further CHF 8 billion to CHF 162 billion.

Outlook – As in recent quarters, the degree of progress towards achieving sustained and material improvements to eurozone sovereign debt and European banking system issues, as well as the extent of uncertainty surrounding geopolitical tensions, the global economic outlook and the US fiscal cliff, will continue to exert a strong influence on client confidence and, thus, activity levels in the fourth quarter of 2012. Failure to make progress on these key issues would make further improvements in prevailing market conditions unlikely and would thus generate headwinds for revenue growth, net interest margins and net new money.

Despite these challenges, we remain confident that our asset-gathering businesses as a whole will continue to attract net new money, reflecting our clients' steadfast trust in the firm. As a result of the decisive action we have announced to accelerate our strategy, we expect to recognize restructuring charges of approximately CHF 500 million in the fourth quarter. Combined with reduced Investment Bank revenues as we exit certain business lines, our current expectations for the impact of movements in own credit spreads, and despite profits in our wealth management businesses, Retail & Corporate and Global Asset Management, we are likely to report a net loss attributable to UBS shareholders in the fourth quarter. Nevertheless, we are confident that the actions we are taking now will ensure the firm's long-term success in the fundamentally changed regulatory and economic environment and will deliver sustainable returns for our shareholders going forward.

Yours sincerely

Axel A. Weber Chairman of the Board of Directors	Sergio P. Ermotti Group Chief Executive Officer

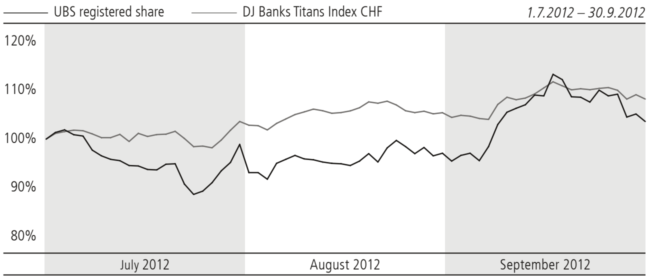
1 Unless otherwise indicated, "adjusted" figures exclude each of the following items, to the extent applicable, on a Group and business division level: own credit loss on financial liabilities designated at fair value for the Group of CHF 863 million in 3Q12 (CHF 239 million gain in 2Q12, CHF 1,765 million gain in 3Q11); net restructuring provision reversal of CHF 22 million for the Group in 3Q12 (net charge of CHF 9 million in 2Q12, net charge of CHF 387 million in 3Q11); impairment losses of CHF 3,064 million on goodwill and other non-financial assets in connection with the goodwill impairment test recently performed with respect to the Investment Bank; credit to personnel expenses related to changes to a US retiree medical and life insurance benefit plan (CHF 84 million for the Group in 2Q12); gain on the sale of our strategic investment portfolio (SIPF) of CHF 433 million in Wealth Management and CHF 289 million in Retail & Corporate in 3Q11; unauthorized trading incident loss of CHF 1,849 million in equities in the Investment Bank in 3Q11. 2 The calculation of our pro-forma Basel III RWA combines existing Basel 2.5 RWA, a revised treatment for low-rated securitization exposures which are no longer deducted from capital but are risk-weighted at 1250%, and new model-based capital charges. Some of these new models still require regulatory approval and therefore our pro-forma calculations include estimates (discussed with our primary regulator) of the effect of these new capital charges which will be refined as models and the associated systems are enhanced.

UBS

Our key figures for the third quarter of 2012

UBS share performance

Third quarter 2012



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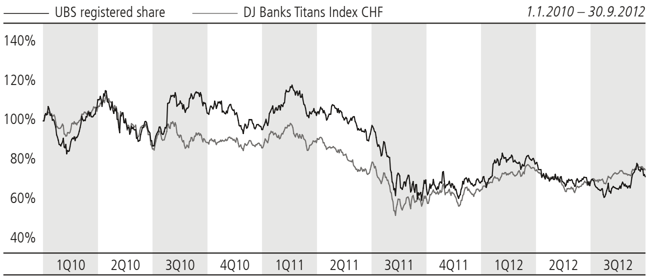

Group results

	For the quarter ended			Year-to-date	
CHF million, except where indicated	**30.9.12**	30.6.12	30.9.11	30.9.12	30.9.11
Operating income	**6,287**	6,408	6,412	19,221	21,926
Operating expenses	**8,803**	5,457	5,432	19,481	17,058
Operating profit before tax	**(2,516)**	951	980	(260)	4,868
Net profit attributable to UBS shareholders	**(2,172)**	425	1,018	(920)	3,840
Diluted earnings per share (CHF)[1]	**(0.58)**	0.11	0.27	(0.25)	1.00

1 Refer to "Note 9 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of our third quarter 2012 report for more information.

Key performance indicators, balance sheet and capital management[1]

	For the quarter ended			Year-to-date	
In %	**30.9.12**	30.6.12	30.9.11	30.9.12	30.9.11
Performance					
Return on equity (RoE)				(2.3)	10.7
Return on risk-weighted assets, gross[2]				11.9	14.4
Return on assets, gross				1.9	2.3
Growth					
Net profit growth[3]	**N/A**	(48.6)	0.3	N/A	(34.6)
Net new money growth[4]	**2.5**	1.8	1.0	1.7	2.3
Efficiency					
Cost / income ratio	**137.2**	85.1	83.6	100.9	77.5

	As of		
CHF million, except where indicated	**30.9.12**	30.6.12	31.12.11
Capital strength			
BIS tier 1 capital ratio (%)[5]	**20.2**	19.2	15.9
FINMA leverage ratio (%)[5]	**6.1**	5.6	5.4
Balance sheet and capital management			
Total assets	**1,369,075**	1,412,043	1,419,162
Equity attributable to UBS shareholders	**52,449**	54,716	53,447
Total book value per share (CHF)[6]	**14.00**	14.60	14.26
Tangible book value per share (CHF)[6]	**12.23**	12.00	11.68
BIS core tier 1 capital ratio (%)[5]	**18.1**	17.2	14.1
BIS total capital ratio (%)[5]	**23.6**	21.8	17.2
BIS risk-weighted assets[5]	**210,278**	214,676	240,962
BIS tier 1 capital[5]	**42,396**	41,210	38,370

1 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of our Annual Report 2011. 2 Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011. 3 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 4 Group net new money includes net new money for Retail & Corporate and excludes interest and dividend income. 5 Capital management data is disclosed in accordance with the Basel 2.5 framework. Refer to the "Capital management" section of our third quarter 2012 report for more information. 6 Refer to the "Capital management" section of our third quarter 2012 report for more information.

Results by business division and Corporate Center

CHF million	Total operating income			Total operating expenses			Operating profit before tax		
For the quarter ended	**30.9.12**	30.6.12	% change	**30.9.12**	30.6.12	% change	**30.9.12**	30.6.12	% change
Wealth Management	**1,789**	1,734	3	**1,189**	1,232	(3)	**600**	502	20
Wealth Management Americas	**1,561**	1,497	4	**1,342**	1,297	3	**219**	200	10
Investment Bank	**2,277**	1,736	31	**5,147**	1,867	176	**(2,870)**	(130)	
Global Asset Management	**468**	446	5	**344**	328	5	**124**	118	5
Retail & Corporate	**932**	927	1	**523**	527	(1)	**409**	399	3
Corporate Center	**(740)**	68		**258**	206	25	**(998)**	(138)	
UBS	**6,287**	6,408	(2)	**8,803**	5,457	61	**(2,516)**	951	

Additional information

	As of		
CHF million, except where indicated	**30.9.12**	30.6.12	31.12.11
Invested assets (CHF billion)[1]	**2,242**	2,163	2,088
Personnel (full-time equivalents)	**63,745**	63,520	64,820
Market capitalization[2]	**43,894**	42,356	42,843

1 In the first quarter of 2012, we refined our definition of invested assets. Refer to the "Recent developments and financial reporting structure changes" section of our first quarter 2012 report for more information. Group invested assets includes invested assets for Retail & Corporate. **2** Refer to the appendix "UBS shares" of our third quarter 2012 report for more information.

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) the degree to which UBS is successful in effecting its announced strategic plans and related organizational changes, in particular its plans to transform its Investment Bank, its efficiency initiatives and its planned reduction in Basel III risk-weighted assets, and whether in each case those plans and changes will, when implemented, have the effects intended; (2) developments in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, 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; (3) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings; (4) changes in financial legislation and 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; (5) changes in UBS's competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS's ability to compete in certain lines of business; (6) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including those that may arise from the ongoing investigations relating to the setting of LIBOR and other reference rates, from market events and losses incurred by clients and counterparties during the financial crisis of 2007 to 2009, and from the unauthorized trading incident announced in September 2011; (7) the effects on UBS's cross-border banking business of tax treaties negotiated or under discussion between Switzerland and other countries and future tax or regulatory developments; (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) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (12) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures; and (13) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. 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 2011. 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.

Rounding | Numbers presented throughout this report may not add up precisely to the totals provided in the tables and text. Percentages and percent changes are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages and percent changes that would be derived based on figures that are not rounded.