

# Third Quarter 2007

30 October 2007

## Dear shareholders,

On 1 October, we announced that for third quarter we were likely to record an overall loss following a writedown of positions in the Investment Bank, mainly related to deteriorating conditions in the US sub-prime residential mortgage market. We also announced a number of management changes. This followed the outlook statement we made in August, when we released our second quarter results, where we warned of a very weak trading result from the Investment Bank.

The events that led to these announcements are unsatisfactory. However, we believe it is vital to be clear and open at all times, and to make sure you, our shareholders, and the market generally, are informed promptly of developments in your company.

We closed the quarter with a loss for the group, before tax and minority interests, of CHF 726 million. This is within the range of CHF 600 to 800 million we indicated in the announcement. After tax and minority interests, this results in a loss of CHF 830 million attributable to shareholders. It means that, for the first time for many quarters, we have not met our return on equity target. Excluding the gain from the sale of our Julius Baer stake in second quarter 2007 and costs related to the closure of DRCM (post-tax CHF 229 million), annualized RoE for the first three quarters of the year was 17.2% – the lowest level since 2003 and below our revised objective of a minimum return of 20% over the cycle.

**We have introduced a number of measures to improve performance.** With the new management team, we are implementing changes to address the weaknesses that led to the losses. These include the management, size and structure of our balance sheet, and the internal charges we apply to business group funding from treasury. We are also taking steps to strengthen our market risk management and control framework. We will, as a matter of course, continue to keep you updated on these changes.

As our shareholders, you expect us to manage UBS to produce profitable growth. To us, this means: establishing a set of earnings streams that are based on true customer benefit, building a strong and growing client base, and maintaining unique assets and capabilities that are hard for competitors to copy.

Efficiency in managing our financial resources and risks is a prerequisite for all three of these. By making continuous efficiency improvement a permanent task, we will enforce discipline in the way we manage costs, allowing us to direct our investment spending where it makes the greatest difference for our clients and investors. To do this, we will change the incentive structure within UBS to reward people who deliver efficiency gains as well as people who deliver increased revenues.

**What happened to UBS in third quarter?** The difficulties which surfaced in the US sub-prime mortgage market in the first half of 2007 spilled over into the wider global markets in late July, and have continued. As widely reported, this led to losses in several parts of the financial services industry. In some affected areas, such as leveraged lending, UBS saw relatively modest losses. Our exposure to hedge funds as counterparties did not pose any problems. We also did not have material exposure to the widely discussed “conduit business” – an area we deliberately avoided.

We did see substantial losses, though, in our inventory of trading positions related to the US sub-prime residential mortgage-backed securities market. These were mostly in our Investment Bank's mortgage-backed securities business and in positions taken over from the now closed Dillon Read Capital Management business. When these positions, which are sizeable and of which UBS still holds a proportion, were taken, we offset them to some extent with hedges that were designed to mitigate risk in normal market conditions. However, the deterioration in the US sub-prime market, especially in August, was so severe and sudden that markets turned illiquid. There was a substantial deterioration in the value of these securities – including those with high credit ratings. Conditions in the US housing market continued to be weak in the quarter, and the end-September valuations we have put on our holdings of US mortgage-linked securities reflect this. The value of these holdings in the future will, nevertheless, depend on developments in the underlying mortgage pools. The losses led to revenues of negative CHF 4.2 billion in our fixed income, currencies and commodities business (FICC). In addition, we recorded proprietary trading losses in equities statistical arbitrage. Following the announcement of the expected loss for third quarter, Standard & Poor's lowered our long-term credit rating to AA. The rating agency's decision was not wholly unexpected – although we would re-emphasize that UBS remains one of the best capitalized banks with one of the strongest credit ratings in the industry.

**The losses in a few areas in our Investment Bank outweighed the sustained strength in all our other businesses.**

Our wealth management businesses had an excellent quarter, with record levels of profitability. Their asset gathering performance remained strong, with inflows of net new money totalling CHF 40.2 billion in the quarter. Fees in both wealth and asset management remained high, driven by the level of invested assets, which stood at CHF 3.1 trillion on 30 September 2007.

For the whole of UBS, net fee and commission income was significantly higher than the levels recorded in third quarter 2006 and only slightly below the all-time high set in second quarter 2007. On top of strong performance in wealth management and

asset management, fee and commission income was also boosted by year on year gains in the Investment Bank's equity underwriting and corporate advisory business, plus strong commissions in our equity cash business. Revenues also rose, year on year, in some of our trading businesses, in particular equity derivatives, prime brokerage, rates derivatives, and government bonds as well as the client-facing distribution area of our money market, currencies and commodities business.

Continued strong fee and commission income reflects our structural strengths. By operating together, each business group achieves higher revenues and lower costs, and sees increased client referrals. The market opportunity presented by the record level of wealth creation around the world continues to grow. Our task now is to make the most of the tremendous potential for profitable growth offered by UBS's structure and market position.

Despite the disappointing third quarter result, our performance in the first nine months of this year has been strong. Over this period, net profit attributable to shareholders from continuing operations was CHF 7,713 million. Excluding the gain from the sale of the Julius Baer stake and DRCM closure costs in second quarter, net attributable profit would have been CHF 6,016 million compared with CHF 8,349 million a year earlier.

**Outlook** – The fourth quarter has started with good results from all businesses, including the Investment Bank. However, our FICC business remains exposed to further deterioration in the US housing and mortgage markets as well as rating downgrades for mortgage-related securities, which could lead to further writedowns on our positions. As a result, we are not assuming that the quarter will continue as positively as it has begun, or that the current difficulties will be resolved in the short term.

30 October 2007

UBS



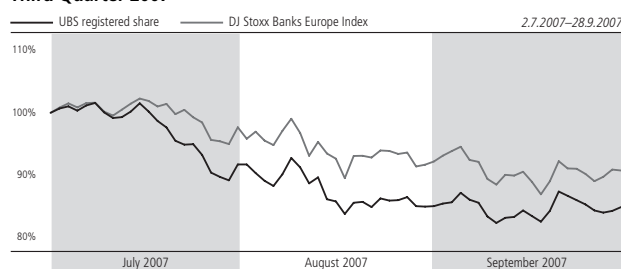
Marcel Ospel  
Chairman



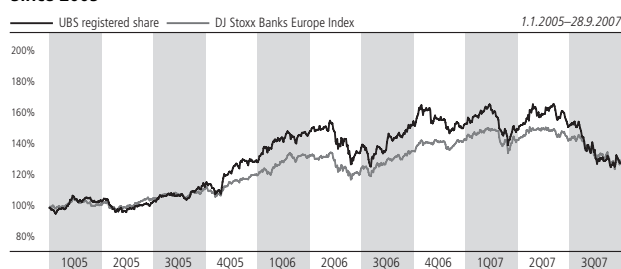
Marcel Rohner  
Chief Executive Officer

## UBS share performance

## Third Quarter 2007



## Since 2005



## Shareholder returns

	Quarter ended			% change from		Year to date	
	30.9.07	30.6.07	30.9.06	2Q07	3Q06	30.9.07	30.9.06
<b>Diluted EPS (CHF)<sup>1</sup></b>							
as reported	(0.44)	2.82	1.07			4.05	4.28
from continuing operations	(0.49)	2.69	1.07			3.87	4.04
<b>Return on equity attributable to UBS shareholders (%)<sup>2</sup></b>							
as reported						21.5	27.6
from continuing operations						20.7	26.0

## Financial strength &amp; ratings

	As of		
	30.9.07	30.6.07	30.9.06
BIS Tier 1 capital ratio (%) <sup>3</sup>	10.6	12.3	12.2
<b>Long-term ratings</b>			
Fitch, London	AA+	AA+	AA+
Moody's, New York	Aaa	Aaa	Aa2
Standard & Poor's, New York <sup>4</sup>	AA+	AA+	AA+

## UBS net profit

CHF million	Quarter ended			% change from		Year to date	
	30.9.07	30.6.07	30.9.06	2Q07	3Q06	30.9.07	30.9.06
Net profit attributable to UBS shareholders	(830)	5,622	2,199			8,067	8,850
Net profit attributable to minority interests	117	149	105	(21)	11	428	397
Operating profit before tax (from continuing and discontinued operations)	(726)	6,236	2,814			9,902	11,619

## Other key figures

CHF million	As of			% change from	
	30.9.07	30.6.07	30.9.06	30.6.07	30.9.06
Equity attributable to UBS shareholders	48,229	51,259	48,094	(6)	0
Market capitalization	127,525	151,203	156,615	(16)	(19)

**Footnotes:** 1 For the EPS calculation, see note 8 to the financial statements of the third quarter 2007 report. 2 Net profit attributable to UBS shareholders year to date (annualized as applicable) / average equity attributable to UBS shareholders less distributions (estimated as applicable). 3 Includes hybrid Tier 1 capital, please refer to the BIS capital and ratios table in the capital management section of the third quarter 2007 report. 4 Standard and Poor's long-term rating was changed to AA on 1 October 2007.

## Key figures Financial Businesses

## Income statement

CHF million	Quarter ended			% change from		Year to date	
	30.9.07	30.6.07	30.9.06	2Q07	3Q06	30.9.07	30.9.06
Operating income	6,169	15,651	10,462	(61)	(41)	35,167	34,899
Operating expenses	7,123	9,695	7,715	(27)	(8)	25,909	24,137
Net profit attributable to UBS shareholders	(1,086)	5,411	2,118			7,513	8,198
Net profit attributable to UBS shareholders from continuing operations	(1,086)	5,152	2,114			7,248	8,194

## Performance indicators

	Quarter ended			Year to date	
	30.9.07	30.6.07	30.9.06	30.9.07	30.9.06
Cost/income ratio (%)	115.2	62.0	73.8	73.7	69.4
Net new money (CHF billion)	38.3	34.0	41.9	125.1	126.2

## Personnel

Full-time equivalents	As of			% change from	
	30.9.07	30.6.07	30.9.06	30.6.07	30.9.06
Switzerland	27,863	27,315	26,736	2	4
Rest of Europe / Middle East / Africa	13,702	13,355	12,235	3	12
Americas	32,422	31,933	29,630	2	9
Asia Pacific	9,827	8,954	6,992	10	41
<b>Total</b>	<b>83,814</b>	<b>81,557</b>	<b>75,593</b>	<b>3</b>	<b>11</b>

## Reporting by Business Group and Unit

CHF million	Total operating income			Total operating expenses			Performance before tax from continuing operations		
	30.9.07	30.9.06	% change	30.9.07	30.9.06	% change	30.9.07	30.9.06	% change
<b>Global Wealth Management &amp; Business Banking</b>									
Wealth Management International & Switzerland	3,315	2,611	27	1,699	1,385	23	1,616	1,226	32
Wealth Management US	1,678	1,423	18	1,497	1,380	8	181	43	321
Business Banking Switzerland	1,349	1,297	4	758	729	4	591	568	4
<b>Global Asset Management</b>	<b>942</b>	<b>728</b>	<b>29</b>	<b>573</b>	<b>444</b>	<b>29</b>	<b>369</b>	<b>284</b>	<b>30</b>
<b>Investment Bank</b>	<b>(1,419)</b>	<b>4,500</b>		<b>2,261</b>	<b>3,417</b>	<b>(34)</b>	<b>(3,680)</b>	<b>1,083</b>	
<b>Corporate Center</b>	<b>304</b>	<b>(97)</b>		<b>335</b>	<b>360</b>	<b>(7)</b>	<b>(31)</b>	<b>(457)</b>	<b>93</b>
<b>Financial Businesses</b>	<b>6,169</b>	<b>10,462</b>	<b>(41)</b>	<b>7,123</b>	<b>7,715</b>	<b>(8)</b>	<b>(954)</b>	<b>2,747</b>	

**Cautionary statement regarding forward-looking statements** | This communication contains statements that constitute "forward-looking statements", including, but not limited to, statements relating to the implementation of strategic initiatives and other statements relating to our future business development and economic performance. While these forward-looking statements represent our judgments and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to, (1) general market and macro-economic trends, (2) legislative developments, governmental and regulatory trends, (3) movements in local and international securities markets, currency exchange rates and interest rates, (4) competitive pressures, (5) technological developments, (6) changes in the financial position or creditworthiness of our customers, obligors and counterparties and developments in the markets in which they operate, (7) management changes and changes to our Business Group structure and (8) other key factors that we have indicated could adversely affect our business and financial performance which are contained in other parts of this document and in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth elsewhere in this document and 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 2006 and other reports on Form 6-K filed after the Form 20-F. UBS is not under any obligation to (and expressly disclaims any such obligations to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise.