

Second Quarter 2014

29 July 2014

Dear Shareholders,

For the second quarter of 2014, we reported a net profit attributable to shareholders of CHF 792 million and diluted earnings per share of CHF 0.21. We recorded an adjusted¹ Group profit before tax of CHF 1.2 billion. The result included net charges of CHF 254 million related to provisions for litigation, regulatory and similar matters which affected the results of several businesses as well as Corporate Center. Despite this, and the muted client activity levels experienced in the quarter, we delivered a strong underlying performance that again demonstrated our discipline, client focus and the strength of our franchise.

Looking at the second quarter in more detail, market conditions and the macroeconomic environment continued to be influenced by heightened tensions in eastern Europe and the Middle East, as well as policy divergence among major central banks. Even as equity markets touched new highs, low risk appetite among investors resulted in subdued volumes and volatility across all asset classes. In addition, shares in the financial sector were affected by heightened concern and uncertainty regarding business models as well as unresolved industry-wide litigation matters, and increases in fines, penalties and regulatory restrictions. Despite these challenges, all our business divisions and regions were profitable and delivered resilient performances. During the quarter we demonstrated again that our strategy is the right one for UBS and that it works in a variety of market conditions.

We continued to build on our industry-leading capital position as we increased our fully applied Basel III common equity tier 1 (CET1) ratio to 13.5%. Our fully applied total capital ratio was 18.1% at quarter-end, surpassing our expected 2019 regulatory requirement of around 17.5%. In May, we issued USD 2.5 billion of low-trigger, loss-absorbing, Basel III-compliant subordinated notes, bringing our total low-trigger tier 2 capital above the 2019 expected progressive buffer requirement of around CHF 9 billion. As a result, our fully applied Swiss SRB leverage ratio improved to 4.2%, in line with our expected fully applied requirement.

We were honored to receive one of the most important awards in the industry as Euromoney named UBS Best Global Bank and, for the third year running, we were named Best Bank in Switzerland. In addition, the combined success of both our wealth management businesses was reflected in Scorpio Partnership's influential Global Private Banking Benchmark², with our firm recognized as the largest wealth manager in the world for the second year in a row.

UBS resolved its cross-border tax matter in Germany with the authorities in Bochum in July. The settlement, which includes a pay-

ment of approximately EUR 300 million, concludes the Bochum proceedings. The resolution of this matter is a significant step allowing UBS to move forward in this important market. As a result of significant efforts by the bank, over 95% of our German clients have either provided us with evidence of tax compliance or completed the voluntary compliance program. We continue to target 100% by year-end.

Wealth Management reported an adjusted¹ profit before tax of CHF 393 million. The result included charges for provisions for litigation, regulatory and similar matters. Excluding these charges, and considering market conditions, Wealth Management's performance was resilient at CHF 684 million. Lombard lending, mandate sales and invested assets all rose, but were offset by lower transaction-based income on low volatility and volumes. The gross margin on invested assets was down 3 basis points to 84 basis points. The adjusted¹ cost/income ratio was above our current target range. Net new money remained very strong at CHF 10.7 billion and we achieved an annualized net new money growth rate at the upper end of our target range.

Wealth Management Americas reported an adjusted¹ profit before tax of USD 246 million while delivering record revenues, and invested assets that exceeded USD 1 trillion for the first time. Operating income increased reflecting continued growth in managed account fees and higher net interest income. Operating expenses included charges of USD 44 million related to provisions for litigation, regulatory and similar matters. Net new money outflows of USD 2.5 billion were mainly due to client withdrawals associated with seasonal income tax payments. The business maintained both its adjusted¹ cost/income ratio and its gross margin on invested assets within target ranges.

Retail & Corporate achieved an adjusted¹ profit before tax of CHF 367 million. Excluding charges for provisions for litigation, regulatory and similar matters of CHF 48 million, the business delivered a performance on par with the strong prior quarter. Operating income increased mainly on higher net interest and transaction-based income, partly offset by net credit loss expenses. Net new business volume growth remained solid and was comfortably within target range. The business's net interest margin was within the target range. Our investment in e-banking, mobile banking innovation and security continued to receive critical acclaim, as we won the international Contactless & Mobile Customer Experience award for our mobile banking authentication systems, and our mobile banking apps placed in the top three leading retail banks by MyPrivateBanking Research.

Global Asset Management's adjusted¹ profit before tax was CHF 107 million. Operating income rose on higher net management fees, mainly in traditional investments and global real estate. This was more than offset by a CHF 33 million charge related to provisions for litigation, regulatory and similar matters, resulting in an adjusted¹ cost/income ratio above the target range. The gross margin on invested assets was in line with the prior quarter and was slightly below the target range. Net new money, excluding money market flows, remained very strong at CHF 11.6 billion and included significant net inflows from both third parties and UBS's wealth management clients. The annualized net new money growth rate, excluding money markets, was well ahead of target.

The **Investment Bank** delivered on all its targets and recorded an increased adjusted¹ profit before tax of CHF 563 million reflecting a strong performance from debt and equity capital markets. This was partly offset by lower revenues both in equities, and FX, rates and credit, mainly on lower client activity levels. Our expertise and focus on sustaining long-term client relationships and developing successful financing solutions is evident in the key roles we played in landmark deals in each region this quarter. At the same time as growing profits, the Investment Bank continued to operate within its limits for fully applied risk-weighted assets and funded assets. Cost control continued to be robust and the business's adjusted¹ cost/income ratio decreased and remained within the target range. Adjusted¹ return on attributed equity was 30%. Our standing as a leading brokerage house and research provider was again confirmed as we gained the top position in several categories in the annual pan-European Thomson Reuters Extel Survey, including Leading Pan-European Equity House for the eleventh consecutive year.

Corporate Center – Core Functions recorded a profit before tax of CHF 25 million, which included a release of provisions for litigation, regulatory and similar matters. The loss before tax in **Corporate Center – Non-core and Legacy Portfolio** was CHF 412 million. Operating income declined mainly due to a loss as we exited the majority of our correlation trading portfolio. Fully applied RWA decreased by CHF 8 billion to CHF 52 billion at the end of the quarter and balance sheet assets were CHF 6 billion lower. We expect to make further progress in exiting our Non-core and Legacy positions during the remainder of 2014.

We are proud of the recognition our strong philanthropic record received in the quarter. We were honored to receive the American Foreign Policy Association 2014 Corporate Social Responsibility award in acknowledgment of the firm's support of projects focusing on education and entrepreneurship in communities around the world, both by providing financial support and through employee volunteering. During the quarter, we continued our work in this area by committing USD 10 million to the establishment of UBS NextGen Leaders, our signature education platform in the US to improve college success among under-privileged groups. Our firm's investment in education goes beyond philanthropic endeavors. The training and career development

opportunities we provide continue to attract key talent. This was reflected by UBS being named financial services employer of choice for the second consecutive year by branding and research firm Universum in a survey of over 11,000 university students throughout Switzerland.

We also continued to take action in the field of corporate responsibility to ensure the firm is run sustainably. By endorsing the Banking Environment Initiative's and Consumer Goods Forum's 'Soft Commodities' Compact, we committed to supporting the sustainability performance of soft commodity supply chains. To do so, we expect soy-, timber- or palm oil-producing clients to be fully certified according to applicable sustainability certification schemes, such as the Roundtable on Sustainable Palm Oil, by 2020. We were also recognized as the only major bank globally meeting the highest corporate responsibility reporting standards of the Global Reporting Initiative, a leading international sustainability reporting organization.

We would like to thank our shareholders for their continued support following their approval of all agenda items as proposed by the Board of Directors at the UBS Annual General Meeting this year. As we announced in May, we are preparing to take another important step to substantially improve UBS's resolvability by establishing a group holding company. In order to effect this, we intend to launch a share for share exchange offer in the third quarter, subject to regulatory approvals. In the offer, existing shares in UBS AG can be exchanged for shares in our new Group holding company, UBS Group AG. As we stated before, following completion of the transaction, we expect to propose a supplementary capital return of at least CHF 0.25 per share to shareholders of UBS Group AG. We would like to thank our shareholders in advance for their support as we take this important step in our firm's history.

Outlook – At the start of the third quarter of 2014, many of the underlying challenges and geopolitical issues that we have previously highlighted remain. The mixed outlook for global growth, the absence of sustained and credible improvements to unresolved issues in Europe, continuing US fiscal and monetary policy issues, increasing geopolitical instability and the seasonal decline in activity levels traditionally associated with the summer holiday season would make improvements in prevailing market conditions unlikely. Despite these ongoing challenges, we will continue to execute on our strategy in order to ensure the firm's long-term success and to deliver sustainable returns for our shareholders.

Yours sincerely,



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Board of Directors



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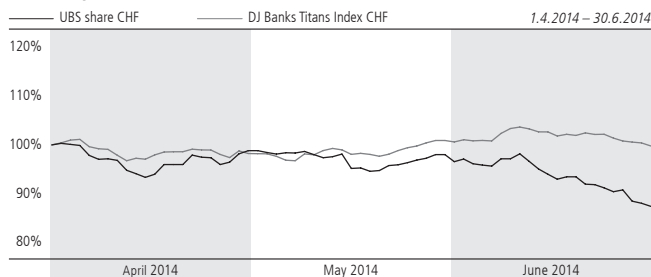
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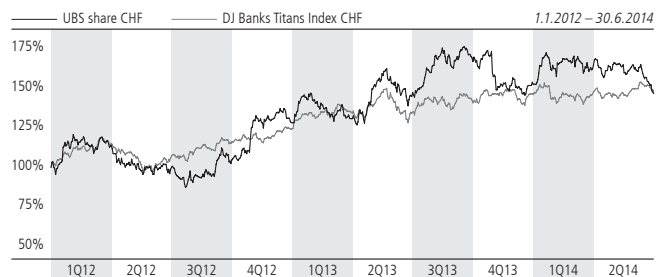
Our key figures for the second quarter of 2014

UBS share performance

Second quarter 2014



Since 2012



Group results

CHF million, except where indicated	As of or for the quarter ended				As of or year-to-date	
	30.6.14	31.3.14	31.12.13	30.6.13	30.6.14	30.6.13
Operating income	7,147	7,258	6,307	7,389	14,405	15,164
Operating expenses	5,929	5,865	5,858	6,369	11,794	12,697
Operating profit/(loss) before tax	1,218	1,393	449	1,020	2,611	2,467
Net profit/(loss) attributable to UBS shareholders	792	1,054	917	690	1,846	1,678
Diluted earnings per share (CHF) ¹	0.21	0.27	0.24	0.18	0.48	0.44

Key performance indicators²

	As of or for the quarter ended				As of or year-to-date	
	30.6.14	31.3.14	31.12.13	30.6.13	30.6.14	30.6.13
Profitability						
Return on equity (RoE) (%)	6.4	8.7	7.7	5.9	7.6	7.2
Return on assets, gross (%)	2.9	2.9	2.4	2.5	2.9	2.5
Cost/income ratio (%)	82.8	81.1	92.7	86.2	82.0	83.6
Growth						
Net profit growth (%)	(24.9)	14.9	58.9	(30.2)	10.0	7.7
Net new money growth for combined wealth management businesses (%)	1.9	2.9	2.4	3.0	2.4	4.6
Resources						
Common equity tier 1 capital ratio (fully applied, %) ³	13.5	13.2	12.8	11.2	13.5	11.2
Swiss SRB leverage ratio (phase-in, %)	5.3	5.0	4.7	3.9	5.3	3.9

Additional information

	As of or for the quarter ended				As of or year-to-date	
	30.6.14	31.3.14	31.12.13	30.6.13	30.6.14	30.6.13
Profitability						
Return on tangible equity (%) ⁴	7.5	10.2	9.1	7.0	8.8	8.5
Return on risk-weighted assets, gross (%) ⁵	12.5	12.6	11.2	11.7	12.5	11.8
Resources						
Total assets	982,605	982,530	1,018,374	1,129,071	982,605	1,129,071
Equity attributable to UBS shareholders	49,532	49,023	48,002	47,073	49,532	47,073
Common equity tier 1 capital (fully applied) ³	30,590	29,937	28,908	26,817	30,590	26,817
Common equity tier 1 capital (phase-in) ³	41,858	41,187	42,179	39,398	41,858	39,398
Risk-weighted assets (fully applied) ³	226,736	226,805	225,153	239,182	226,736	239,182
Risk-weighted assets (phase-in) ³	229,908	229,879	228,557	242,626	229,908	242,626
Common equity tier 1 capital ratio (phase-in, %) ³	18.2	17.9	18.5	16.2	18.2	16.2
Total capital ratio (fully applied, %) ³	18.1	16.8	15.4	13.5	18.1	13.5
Total capital ratio (phase-in, %) ³	23.9	22.7	22.2	20.6	23.9	20.6
Swiss SRB leverage ratio (fully applied, %)	4.2	3.8	3.4	2.9	4.2	2.9
Swiss SRB leverage ratio denominator (fully applied) ⁶	980,552	987,899	1,020,247	1,131,370	980,552	1,131,370
Swiss SRB leverage ratio denominator (phase-in) ⁶	986,577	993,970	1,027,864	1,140,765	986,577	1,140,765

¹ Refer to "Note 9 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of the second quarter 2014 report for more information. ² Refer to the "Measurement of performance" section of our Annual Report 2013 for the definitions of our key performance indicators. In the first quarter of 2014, the definitions of certain group key performance indicators were amended. Refer to the "Regulatory and legal developments and financial reporting changes" section of the first quarter 2014 report for more information. ³ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of the second quarter 2014 report for more information. ⁴ Net profit/loss attributable to UBS shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable)/average equity attributable to UBS shareholders less average goodwill and intangible assets. ⁵ Based on phase-in Basel III risk-weighted assets. ⁶ The leverage ratio denominator is also referred to as "total adjusted exposure" and is calculated in accordance with Swiss SRB leverage ratio requirements. Data represent the average of the total adjusted exposure at the end of the three months preceding the end of the reporting period. Refer to the "Capital management" section of the second quarter 2014 report for more information.

Additional information (continued)

CHF million, except where indicated	As of or for the quarter ended				As of or year-to-date	
	30.6.14	31.3.14	31.12.13	30.6.13	30.6.14	30.6.13
Other						
Invested assets (CHF billion) ¹	2,507	2,424	2,390	2,348	2,507	2,348
Personnel (full-time equivalents)	60,087	60,326	60,205	60,754	60,087	60,754
Market capitalization ²	62,542	70,180	65,007	61,737	62,542	61,737
Total book value per share (CHF) ²	13.20	13.07	12.74	12.49	13.20	12.49
Tangible book value per share (CHF) ²	11.54	11.41	11.07	10.73	11.54	10.73

¹ Group invested assets includes invested assets for Retail & Corporate. ² Refer to the "UBS shares" section of the second quarter 2014 report for more information.

Results by business division and Corporate Center

CHF million	Total operating income			Total operating expenses			Operating profit/(loss) before tax		
	30.6.14	31.3.14	% change	30.6.14	31.3.14	% change	30.6.14	31.3.14	% change
For the quarter ended									
Wealth Management	1,921	1,943	(1)	1,566	1,325	18	355	619	(43)
Wealth Management Americas	1,684	1,661	1	1,473	1,419	4	211	242	(13)
Retail & Corporate	938	932	1	584	547	7	354	386	(8)
Global Asset Management	465	451	3	359	329	9	105	122	(14)
Investment Bank	2,284	2,190	4	1,704	1,765	(3)	579	425	36
Corporate Center	(145)	80		242	481	(50)	(387)	(401)	(3)
of which: Core Functions	23	51	(55)	(2)	227		25	(176)	
of which: Non-core and Legacy Portfolio	(167)	29		245	254	(4)	(412)	(225)	83
UBS	7,147	7,258	(2)	5,929	5,865	1	1,218	1,393	(13)

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: (i) the degree to which UBS is successful in executing its announced strategic plans, including its efficiency initiatives and its planned further reduction in its Basel III risk-weighted assets (RWA) and leverage ratio denominator (LRD); (ii) 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; (iii) changes in the availability of capital and funding, including any changes in UBS's credit spreads and ratings, or arising from requirements for bail-in debt or loss-absorbing capital; (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose more stringent capital (including leverage ratio), liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration or other measures; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve reductions to the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA, or will approve a limited reduction of capital requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in executing the announced creation of a new Swiss banking subsidiary, a holding company for the UBS Group (including the announced offer to exchange shares of UBS AG for shares of such holding company), a US intermediate holding company, changes in the operating model of UBS Limited and other changes which UBS may make in its legal entity structure and operating model, including the possible consequences of such changes, and the potential need to make other changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, including capital requirements, resolvability requirements and the pending Swiss parliamentary proposals and proposals in other countries for mandatory structural reform of banks; (vii) 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; (viii) 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; (ix) the effects on UBS's cross-border banking business of tax or regulatory developments and of possible changes in UBS's policies and practices relating to this business; (x) UBS's ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xi) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xii) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xiii) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xiv) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures; and (xv) 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. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. 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 2013. 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 document may not add up precisely to the totals provided in the tables and text. Percentages, percent changes and absolute variances are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages, percent changes and absolute variances that would be derived based on figures that are not rounded.

Tables | Within tables, blank fields generally indicate that the field is not applicable or not meaningful, or that information is not available as of the relevant date or for the relevant period. Zero values generally indicate that the respective figure is zero on an actual or rounded basis.