

# Third Quarter 2014

28 October 2014

## Dear Shareholders,

For the third quarter of 2014, we reported a net profit attributable to shareholders of CHF 762 million and diluted earnings per share of CHF 0.20. The result included net charges of CHF 1,836 million related to provisions for litigation, regulatory and similar matters and a net tax benefit of CHF 1,317 million. We recorded a strong underlying<sup>1</sup> profit before tax of CHF 1,653 million, demonstrating the fundamental earnings power of our franchise. In the third quarter, we maintained our industry-leading capital position. Our fully applied Basel III common equity tier 1 (CET1) ratio improved to 13.7% as we further reduced risk-weighted assets (RWA), mainly within operational risk, and despite headwinds from foreign exchange, higher volatility and the effect of litigation provisions on our profitability. Our fully applied Swiss SRB leverage ratio was 4.2% and we maintained robust liquidity and funding positions. As a consequence of our strong capital position and earnings power, we have every confidence in our ability to deliver on our capital return policy.

All of our business divisions and regions achieved strong underlying<sup>1</sup> results in a seasonally slower quarter. Our wealth management businesses recorded combined net new money amounting to CHF 14.4 billion and, excluding money market flows, net new money in Global Asset Management totaled CHF 3.8 billion. Together, our wealth management businesses' adjusted<sup>1</sup> profit before tax exceeded CHF 1 billion. Wealth Management recorded its highest quarterly adjusted<sup>1</sup> profit before tax since the second quarter of 2009, Wealth Management Americas achieved record recurring income and Retail & Corporate reported its strongest quarterly adjusted<sup>1</sup> profit before tax in four years. Global Asset Management achieved its highest adjusted<sup>1</sup> profit before tax in six quarters. The Investment Bank delivered its best third-quarter adjusted<sup>1</sup> revenues since 2010, with Corporate Client Solutions and equities showing robust growth compared with the third quarter of 2013. Our strong underlying<sup>1</sup> performance was achieved despite heightened geopolitical tensions, weak global growth rates and expectations of rising US interest rates, all of which weighed on market sentiment, resulting in continued risk aversion among clients.

Looking at the performance of our businesses in the third quarter, **Wealth Management** achieved an adjusted<sup>1</sup> profit before tax of CHF 767 million, up CHF 374 million from the prior quarter. The result reflected lower charges for provisions for litigation, regulatory and similar matters and increased operating income, largely as a result of both higher recurring net fee income and net interest income. The gross margin on invested assets increased 2 basis points to 86 basis points from the prior

quarter. Net new money remained strong at CHF 9.8 billion compared with CHF 10.7 billion, with positive contributions from all regions and Asia Pacific in particular. The business's annualized net new money growth rate remained within the target range and its adjusted<sup>1</sup> cost/income ratio improved significantly, placing it within the current target range.

**Wealth Management Americas** delivered another strong performance with an adjusted<sup>1</sup> profit before tax of USD 267 million, an increase of USD 21 million on record revenues and record financial advisor productivity. Recurring net fee income and net interest income increased during the quarter. This more than outweighed the reduction in transaction-based income reflecting the typical seasonal decline in client activity levels. Net new money improved significantly to USD 4.9 billion from negative USD 2.5 billion in the prior quarter, reflecting net inflows from financial advisors employed with UBS for more than one year compared with net outflows in the prior quarter. The business's annualized net new money growth rate was slightly below the target range. The adjusted<sup>1</sup> cost/income ratio and the gross margin on invested assets both remained within their target ranges.

Our **Retail & Corporate** business's adjusted<sup>1</sup> profit before tax increased by CHF 79 million to CHF 446 million, mainly reflecting lower charges for provisions for litigation, regulatory and similar matters coupled with higher net interest and transaction-based income. This was partly offset by higher credit loss expenses for the quarter. Net interest margin, annualized net new business volume growth rate for our retail business and adjusted<sup>1</sup> cost/income ratio were all within the target ranges.

**Global Asset Management** recorded an adjusted<sup>1</sup> profit before tax of CHF 151 million, CHF 44 million higher than in the prior quarter, which included charges for provisions for litigation, regulatory and similar matters. Net management fees increased, mainly in traditional investments and also in global real estate. Performance fees declined, primarily in O'Connor, but this was partly offset by increases in traditional investments, global real estate and A&Q. The business's adjusted<sup>1</sup> cost/income ratio improved and was within the target range. The gross margin on invested assets was in line with the prior quarter and slightly below the target range. Net new money excluding money market flows was CHF 3.8 billion compared with a very strong CHF 11.6 billion in the prior quarter. The annualized net new money growth rate was slightly below the target range.

The **Investment Bank** achieved an underlying<sup>1</sup> profit before tax of CHF 494 million, a strong performance achieved during the traditionally slow summer period. The result reflected lower revenues in Corporate Client Solutions, mainly due to reduced capital markets activity levels, while Investor Client Services revenues were stable compared with the prior quarter. Underlying<sup>1</sup> operating expenses were lower than in the prior quarter. The Investment Bank achieved its strongest third-quarter adjusted<sup>1</sup> revenues in equities since 2010, largely as a result of higher revenues in derivatives and financing services. Increased foreign exchange volatility towards the end of the quarter benefited revenues. Corporate Client Solutions performed strongly year-on-year. On an underlying<sup>1</sup> basis, the Investment Bank improved efficiency overall with a cost/income ratio of 75.2% and an annualized return on attributed equity for the third quarter of 26.7%. Results on a reported basis were impacted by CHF 1,687 million in charges for provisions for litigation, regulatory and similar matters and fell below the target range for adjusted<sup>1</sup> annualized pre-tax return on attributed equity and rose above the target range for adjusted<sup>1</sup> cost/income ratio.

**Corporate Center – Core Functions** reported a loss before tax of CHF 190 million. The loss before tax in **Corporate Center – Non-core and Legacy Portfolio** was CHF 603 million. Operating income declined, reflecting a net loss of CHF 252 million related to the incorporation of funding valuation adjustments into the fair value measurement of uncollateralized and partially collateralized derivatives. We continued to reduce our exposures well ahead of plan, as fully applied RWA decreased by CHF 10 billion to CHF 42 billion and balance sheet assets were CHF 9 billion lower. We expect to make further progress in exiting the remaining Non-core and Legacy positions.

During the quarter, we commenced our share-for-share exchange offer in order to establish a group holding company, UBS Group AG. As previously announced, UBS Group AG is offering to acquire all shares of UBS AG in exchange for UBS Group AG shares on a one-for-one basis. UBS Group AG shares will carry the same voting and economic rights as the UBS AG shares. Following successful completion of the transaction, including any necessary squeeze-out procedures, a supplementary capital return of at least CHF 0.25 per share is expected to be proposed to shareholders of UBS Group AG. The Board of Directors of UBS AG determined that the exchange offer is in the best interests of UBS and its shareholders and unanimously recommended that shareholders accept the offer. The establishment of a holding company, together with other announced changes to our legal structure, is intended to substantially improve our resolvability in response to regulatory requirements. We anticipate that this will enable us to qualify for a capital rebate under the Swiss “too-big-to-fail” regime. These changes will not affect our strategy or how we serve our clients.

The offer is progressing as expected and we are confident that shareholders will recognize the benefits of the exchange.

We recently commenced celebrations to mark our firm’s 50th anniversary in Asia, one of the fastest-growing and most attractive regions in the world. When we opened for business in Hong Kong in 1964, we were the only Swiss bank with a representative office there and we are very proud of our achievements since. Through a half-century of committed investment, pioneering spirit and innovation, we have created the region’s top wealth manager, investment bank and equities house, making us the leading franchise in Asia.

Our comprehensive environmental and social commitment was again recognized in the quarter. We placed among the leaders in our industry in the 2014 Dow Jones Sustainability Indices. The firm was also awarded the CommunityMark accreditation by the organization Business in the Community, the UK’s highest award for businesses which demonstrate how they maximize positive and minimize negative community impacts. We were also pleased to be recognized in the top 100 US companies by Working Mother magazine for our leadership in establishing policies, programs and a corporate culture that supports working mothers. In our home market, over the summer, we supported two major international sporting events – the European Athletics Championships and Weltklasse Zurich – and the UBS Kids Cup Final, helping to get thousands of spectators, clients and the next generation involved in athletics.

**Outlook** – At the start of the fourth quarter of 2014, many of the underlying challenges and geopolitical issues that we have previously highlighted remain and in some cases have intensified. A number of new concerns have arisen including the fear of risks related to the Ebola virus. 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 and increasing geopolitical instability 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,



Axel A. Weber  
Chairman of the  
Board of Directors



Sergio P. Ermotti  
Group Chief Executive Officer

<sup>1</sup> Refer to the “Group performance” and “Investment Bank” sections of the third quarter 2014 report for more information on adjusted and underlying results.

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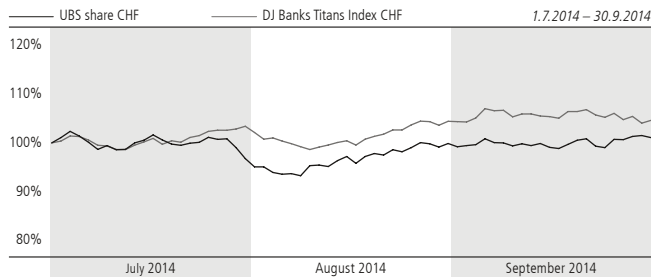
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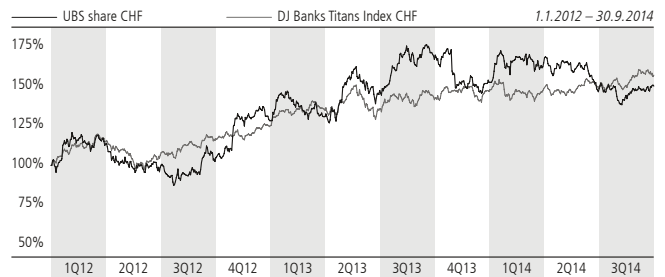
## Our key figures for the third quarter of 2014

### UBS share performance

#### Third quarter 2014



#### Since 2012



### Group results

CHF million, except where indicated	As of or for the quarter ended				As of or year-to-date	
	30.9.14	30.6.14	31.12.13	30.9.13	30.9.14	30.9.13
Operating income	6,876	7,147	6,307	6,261	21,281	21,425
Operating expenses	7,430	5,929	5,858	5,906	19,224	18,602
Operating profit / (loss) before tax	(554)	1,218	449	356	2,057	2,823
Net profit / (loss) attributable to UBS shareholders	762	792	917	577	2,609	2,255
Diluted earnings per share (CHF) <sup>1</sup>	0.20	0.21	0.24	0.15	0.68	0.59

### Key performance indicators<sup>2</sup>

	As of or for the quarter ended				As of or year-to-date	
	30.9.14	30.6.14	31.12.13	30.9.13	30.9.14	30.9.13
<b>Profitability</b>						
Return on equity (RoE) (%)	6.1	6.4	7.7	4.9	7.1	6.4
Return on assets, gross (%)	2.7	2.9	2.4	2.3	2.8	2.5
Cost / income ratio (%)	107.5	82.8	92.7	94.1	90.3	86.7
<b>Growth</b>						
Net profit growth (%)	(3.8)	(24.9)	58.9	(16.4)	15.7	
Net new money growth for combined wealth management businesses (%)	3.1	1.9	2.4	1.6	2.7	3.6
<b>Resources</b>						
Common equity tier 1 capital ratio (fully applied, %) <sup>3</sup>	13.7	13.5	12.8	11.9	13.7	11.9
Swiss SRB leverage ratio (phase-in, %)	5.4	5.3	4.7	4.2	5.4	4.2

### Additional information

	As of or for the quarter ended				As of or year-to-date	
	30.9.14	30.6.14	31.12.13	30.9.13	30.9.14	30.9.13
<b>Profitability</b>						
Return on tangible equity (%) <sup>4</sup>	7.1	7.5	9.1	5.9	8.3	7.6
Return on risk-weighted assets, gross (%) <sup>5</sup>	12.2	12.5	11.2	10.8	12.4	11.5
<b>Resources</b>						
Total assets	1,049,258	982,605	1,018,374	1,049,101	1,049,258	1,049,101
Equity attributable to UBS shareholders	50,824	49,532	48,002	47,403	50,824	47,403
Common equity tier 1 capital (fully applied) <sup>3</sup>	30,047	30,590	28,908	26,019	30,047	26,019
Common equity tier 1 capital (phase-in) <sup>3</sup>	42,464	41,858	42,179	38,963	42,464	38,963
Risk-weighted assets (fully applied) <sup>3</sup>	219,296	226,736	225,153	218,926	219,296	218,926
Risk-weighted assets (phase-in) <sup>3</sup>	222,648	229,908	228,557	222,306	222,648	222,306
Common equity tier 1 capital ratio (phase-in, %) <sup>3</sup>	19.1	18.2	18.5	17.5	19.1	17.5
Total capital ratio (fully applied, %) <sup>3</sup>	18.7	18.1	15.4	14.3	18.7	14.3
Total capital ratio (phase-in, %) <sup>3</sup>	24.9	23.9	22.2	21.8	24.9	21.8
Swiss SRB leverage ratio (fully applied, %)	4.2	4.2	3.4	3.0	4.2	3.0
Swiss SRB leverage ratio denominator (fully applied) <sup>6</sup>	985,071	980,552	1,020,247	1,055,956	985,071	1,055,956
Swiss SRB leverage ratio denominator (phase-in) <sup>6</sup>	991,730	986,577	1,027,864	1,063,294	991,730	1,063,294

<sup>1</sup> Refer to "Note 9 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of the third quarter 2014 report for more information. <sup>2</sup> 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 our first quarter 2014 report for more information. <sup>3</sup> Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRB). Refer to the "Capital management" section of the third quarter 2014 report for more information. <sup>4</sup> 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. <sup>5</sup> Based on phase-in Basel III risk-weighted assets. <sup>6</sup> 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 third 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	
	30.9.14	30.6.14	31.12.13	30.9.13	30.9.14	30.9.13
<b>Other</b>						
Invested assets (CHF billion) <sup>1</sup>	2,640	2,507	2,390	2,339	2,640	2,339
Personnel (full-time equivalents)	60,292	60,087	60,205	60,635	60,292	60,635
Market capitalization <sup>2</sup>	64,047	62,542	65,007	71,066	64,047	71,066
Total book value per share (CHF) <sup>2</sup>	13.54	13.20	12.74	12.58	13.54	12.58
Tangible book value per share (CHF) <sup>2</sup>	11.78	11.54	11.07	10.89	11.78	10.89

<sup>1</sup> Group invested assets includes invested assets for Retail & Corporate. <sup>2</sup> Refer to the "UBS shares" section of the third 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		
	30.9.14	30.6.14	% change	30.9.14	30.6.14	% change	30.9.14	30.6.14	% change
For the quarter ended									
<b>Wealth Management</b>	<b>2,031</b>	1,921	6	<b>1,324</b>	1,566	(15)	<b>707</b>	355	99
<b>Wealth Management Americas</b>	<b>1,779</b>	1,684	6	<b>1,543</b>	1,473	5	<b>236</b>	211	12
<b>Retail &amp; Corporate</b>	<b>958</b>	938	2	<b>532</b>	584	(9)	<b>426</b>	354	20
<b>Global Asset Management</b>	<b>489</b>	465	5	<b>335</b>	359	(7)	<b>154</b>	105	47
<b>Investment Bank</b>	<b>1,937</b>	2,284	(15)	<b>3,221</b>	1,704	89	<b>(1,284)</b>	579	
<b>Corporate Center</b>	<b>(318)</b>	(145)	119	<b>475</b>	242	96	<b>(793)</b>	(387)	105
of which: Core Functions	5	23	(78)	194	(2)		(190)	25	
of which: Non-core and Legacy Portfolio	(322)	(167)	93	280	245	14	(603)	(412)	46
<b>UBS</b>	<b>6,876</b>	7,147	(4)	<b>7,430</b>	5,929	25	<b>(554)</b>	1,218	

**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 pending 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 proposals in Switzerland and 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.