Annual General Meeting of 15 April 2009

Speech by Oswald J. Grübel, Group Chief Executive Officer of UBS AG

Check against delivery

Dear shareholders,
Ladies and gentlemen,

On February 26 I took over as the CEO of UBS, and it is an honor to be able to speak to you today in this capacity.

Unfortunately I am not able – as yet – to offer you any good news. Instead I am forced to present you with another round of unsatisfactory performance figures and to announce further drastic measures. Having maneuvered ourselves into a difficult situation, we are today still not far enough along to be able either to fully protect ourselves from the negative environment or seize new opportunities. But we do know where we have to set to work, as I will go on to explain. It will be a long road back to success without any quick fixes. Rather, we will move forward step by step in a rigorous and disciplined manner. This will require a lot of energy, but I can assure you that energy is something UBS has more than enough of.

My management team and I have set ourselves a wide range of goals for the coming months and years. We have, however, one overriding priority, and that is capital.

Our *most important* task is to rebuild our "capital of trust." By that I mean the trust placed in us by you as shareholders, the trust of our clients and the trust of political institutions. The support we have been given by all our stakeholders has obliged us to do no less, and we take this obligation seriously.

Trust is something that is quickly lost, while winning it back is a long and demanding process. We have to become dependable and reliable again and show you that we deserve your trust. This is what we are working on because the lost of your trust is something that pains our bank and our employees more than anything else. An indispensable condition for achieving this is having enough leeway in terms of our financial capital, and that can only happen if we are profitable. A loss-making bank cannot win anyone’s trust. Our *most urgent* task is therefore to restore and increase profitability. I shall now go into more detail about how this is to be achieved.

UBS

Key figures from the first quarter of 2009

You will have asked yourself where UBS stands today financially. Since we will present our detailed results for the first quarter of 2009 on May 5, I am only able to give you a few preliminary figures right now. I can already say, however, that our results remain very unsatisfactory.

We will report a loss attributable to you, our shareholders, of almost 2 billion Swiss francs. This stems from a negative contribution totaling 3.9 billion Swiss francs due to losses on illiquid risk positions, provisions for credit losses and price adjustments on the last transfer of assets to a fund controlled by the Swiss National Bank.

The losses on the previously disclosed illiquid positions indicate the still high concentrations of risk. The outlook for these remaining securities has not changed materially.

Thanks to a reduction of our balance sheet and risk-weighted assets, we expect, despite this loss, to have a tier 1 capital ratio of roughly 10%.

In terms of net new money, I also have to report that – despite some initial positive signs – we will close the quarter with an overall net outflow, one lower than in the fourth quarter 2008, though the net result remains negative and stands at roughly 23 billion Swiss francs for the business division Wealth Management & Swiss Bank. The outflow was mainly recorded after the announcement of the agreement in connection with the investigation into our cross-border activities for US clients. On the other hand, Wealth Management Americas recorded a positive result, with net new money of around 16 billion Swiss francs.

Although we have taken many important steps in recent months to stabilize our bank, the crisis is not yet over. We will therefore do what is necessary and implement further measures to immediately protect and strengthen our capital base.

The first thing we absolutely have to do is avoid loss-making businesses. We are also compelled to drastically cut costs again, right away. Why? Because, as I stated earlier, we want to become profitable, and there are only two ways to do this: first, by increasing revenue or, second, by reducing costs. Revenue growth is of course our overriding goal, but in the present environment we simply cannot achieve this quickly enough. Assets under management have dropped sharply, margins are falling and the whole financial industry is shrinking. Right now we do not have full control over our revenue streams; they are heavily affected by market trends. Markets remain extremely unstable, and we will not simply wait and hope for better times. To do so would be too risky and irresponsible. That's why we are acting today by rigorously adjusting the size of our bank and cutting costs significantly once again.

I am convinced this is the right thing to do. But you should not assume that this will bring about a marked improvement in our results as early as the next few quarters. Our outlook remains cautious and we face many uncertainties. We have to prepare ourselves for this, even though we are entitled to be very optimistic about the longer-term prospects for our bank.

Cost-cutting program

Ladies and gentlemen, we are aiming for potential savings of between 3.5 and 4 billion francs by the end of 2010 compared with our costs for 2008.

What are our plans for achieving this cost reduction?

We announced at the start of the month that we intend to consolidate all Group-wide infrastructure and service operations in the Corporate Center, in order to boost efficiency and generate significant cost savings. We also stated that financial and risk control as well as legal and compliance will now be managed centrally at Group level, shortening decision-making processes and strengthening control functions. This is important for a large global organization, especially when it comes to avoiding losses.

In general, we will concentrate on those activities essential for providing optimal client service and running our bank as efficiently as possible. Projects not absolutely urgent in this regard have been halted until further notice. Major cuts will be made in marketing, sponsorship, and external consultants and support. We will also be cancelling certain employee benefits, above all at the management level, which will result in significant savings. UBS has always been a generous employer and many staff benefits were above market and industry norms. I think it is right for a flourishing company to use such benefits as a way of enabling employees to share in its success. Under the current circumstances, however, I have to ask employees for their understanding and support with regard to this decision.

A further step we are compelled to take is a major round of job cuts. In the banking business employees are the most important competitive factor. For this reason, cutting jobs and introducing the insecurity associated with them is a difficult step to take. No manager does so lightly. I certainly do not. On the other hand, changed market conditions and the reduced levels of business such as we're experiencing today necessitate downsizing our firm. And in a personnel-intensive industry like ours that directly affects employees. At the end of 2008 UBS employed approximately 77,800 people and at the end of March 2009 some 76,200. We anticipate that we will reduce this number to around 67,500 in 2010.

I won't be anything less than frank with you and with our employees, to whom we owe full transparency in this situation. We will not be able to avoid layoffs – including in Switzerland. This despite the fact that we will continue to make every effort to use natural turnover and offer alternative working models such as part-time work and job sharing. Given that we plan to cut about 2,500 jobs in Switzerland, we anticipate it will be necessary to make 1,200 to 1,500 layoffs in this country. A social plan has been drawn up for those employees affected.

These cuts are very painful, but sadly unavoidable. We will do everything we can to ensure that employees quickly know where they stand, and that clients are not affected.

Paradigm shift in the financial industry

Let us now, ladies and gentlemen, consider UBS in a wider context. What sort of environment is our bank operating in?

There can be no doubt that the financial industry is undergoing profound change; in my opinion we are even in the midst of a paradigm shift. Let me give just a few examples:

Political influence over the financial industry has increased tremendously, and is now often direct – a result of stakes taken in banks by numerous governments around the world as well as other state-sponsored support programs. I mention this as a matter of fact, not as a criticism. The banks themselves, including UBS, have only themselves to blame. The fact that Switzerland made a commitment to us was important. Now we have to prove that we can stand on our own two feet, in our own interests and in those of the Swiss taxpayer.

At the same time, regulatory pressure has increased enormously. Stricter capital adequacy requirements surely mark just the beginning of a wave of new rules. Some of this is necessary and justified, but we have to assume that there will also be overreactions. I am convinced that, in the future, governments will pay attention to the risks that a bank incurs – and in particular in what proportion these risks stand to the financial resources of a country's economy.

The international community has also reached a new consensus with regard to exchanging information in tax cases, and the pressure on banking secrecy laws will persist. This change does not only affect the Swiss financial sector, although we are aware that we come under particularly close scrutiny in this regard. I will not tolerate any breaches when it comes to obeying the relevant laws and regulations. The operating conditions for cross-border wealth management will change, and this will affect how our clients act. We shall make sure that this does not catch us unprepared.

Ladies and gentlemen, I don’t have to tell you how severely the financial crisis has affected the assets of private and institutional investors. Private clients are now skeptical about complex products, opting instead for simpler, more direct forms of investment and greater safety. Institutional clients have stopped buying securitized loans – this business has all but disappeared.

The financial crisis has also brought the importance of stable client deposits as a source of funding back to the fore. UBS is still well positioned in this regard, with around a quarter of our funding covered by client deposits as of the end of 2008. If we are to maintain this position, we must continue to be a reliable bank for our private clients. This brings us back to the importance of a solid capital base as a guarantee of financial stability, and to regaining the trust of our clients. But it is also about the products and services we offer. The private client business is more attractive and more hard-fought than ever. We must compete based on the quality of our advisory services and products if we are to be successful in this increasingly fierce competitive environment.

Despite all the reservations, investment banking continues to have a role to play alongside the private client business. I know that the source of the often-justified criticisms lies in the enormous losses and bitter disappointments of the last few years. In many respects, however, these criticisms are short-sighted. Firms will continue to want to raise capital, access the markets and address their structural and strategic issues, and they will require the advice and support of an investment bank in order to do so. Furthermore, it will always be necessary in maintaining the worldwide capital flows in private banking to have institutions which support client trading. The Swiss financial sector in particular must focus on investment banks as a trading platform if it wants to maintain its position as one of the world's most important markets for investors. The fact that investment banking is a necessary business does not mean that investment banks will continue to take on unjustifiable risks, however; quite the opposite. Those days are gone.

Strategic adjustments

What do the above trends mean for UBS's strategy?

In short, the UBS of the future will be a global bank whose core business is international wealth management, with a particular focus on its domestic banking business, and which occupies a leading position in these markets. To do this it needs professional investment banking and asset management services.

We see no reason to question the fundamental attractiveness of our integrated business model – we will continue to combine our private client business with our expertise in global investment banking and asset management. At the same time we need to be aware that, at least for the present, we won't be seeing the above-average returns which had characterized the industry in previous decades. Despite this, our business needs to generate good profits and, over time, reach a position where we can once again pay you, our owners, a suitable dividend. It is also important for us to optimize our organization in a way that will enable us to better assess and control risks, for you as shareholders and for Switzerland's economy.

We are currently carrying out a review of all our business areas in order to make a clear decision about which businesses will remain active and grow, and which we will exit. We shall inform you of the results as soon as possible. There will be cuts: Yes, our bank will become smaller. On the other hand, we will be able to focus more on our strengths. And I am convinced that this increased focus will enable us to achieve future success.

In the private client business and in asset management, the volume of client assets we manage has fallen considerably in recent quarters, primarily as a result of adverse market conditions, changes in client behavior and our own reputational problems, for example with regard to the legal cases in the US and the debate they have triggered. This of course impacts our revenues and profitability. The ongoing, and to a large extent understandable, negative publicity has accelerated this trend. The key now is to return to generating the stable returns that you as shareholders expect from us. We are doing everything in our power to achieve this. We are also evaluating the longer-term growth potential in all our business areas and developing corresponding strategies and initiatives.

In investment banking we want to return to the more traditional business model, with manageable risks and clear earnings potential. We will build on our already strong positions in equities and foreign exchange as well as in the corporate finance and M&A business. At the same time we will continue to reduce our balance sheet and risk-weighted assets. We want to focus our trading activities on client business. Across all parts of the Investment Bank we will be exiting certain areas of activity completely and reducing risks. We will concentrate on the most important capital markets, and withdraw from certain locations.

These changes will not happen overnight. We shall act quickly but not hastily, and I have no doubt that afterward, with a renewed UBS, we will be successful.

Closing remarks

Ladies and gentlemen, there are a host of other questions regarding UBS about which you might well like to hear my opinion. For example, I have said nothing today about employee compensation.

I could make life easy for myself and simply say that UBS wants to pay its employees in line with going market rates, but you would probably not view this as an adequate response to this issue. The fact is that I generally favor a pragmatic approach and find that ideologies – of whatever stripe – hold little appeal for me. As far as the compensation question goes, we find ourselves at the moment in a transition phase – away from revenue participation toward participation in net profitability. My remarks on the far-reaching changes in the financial sector should also allow conclusions to be drawn with respect to my opinions regarding future potential levels of compensation and bank profits. The markets have changed fundamentally, but even in these times it is still possible to be successful, to get great satisfaction from one's work and to provide attractive services for clients.

There are certainly some of you who from time to time have had doubts about our bank – but then ultimately decided to stay with us. Perhaps you have also asked yourself why I decided to come out of retirement. I believe we are both motivated by the same conviction: our bank and the Swiss financial industry are worth it – no ifs, ands or buts about it. Amid this paradigm shift I have described to you we have a contribution to make – because we made mistakes and learned from them. The opportunity to achieve something for this bank, for its clients, for a new generation of bank employees is what drives me. And our employees feel the same way: I became convinced of that in recent weeks. I have heard it in discussions that I have had with them, and read it in the suggestions that I have received from them. They are prepared to exert themselves, to accept cuts and changes and to give their best. And they believe that we will succeed – just as I do.

On that note I would like to offer you, our shareholders, as well as our clients and staff, my heartfelt thanks for your ongoing loyalty. I look forward to your constructive and critical proposals as we move forward together. We know to value your support highly. Our employees and I will do our utmost to ensure you are not disappointed.

Thank you.