UBS

Annual General Meeting on April 15, 2009

Speech by Peter Kurer, Chairman of the Board of Directors of UBS AG

Check against delivery.

Dear Shareholders,

One year ago I stood before you here and asked for your support in my election as Chairman of the Board. UBS was in the midst of the greatest crisis in its history. It had lost vast sums of money as a result of the subprime credit crisis and was among the hardest hit banks in the crisis. The Board of Directors had asked me on short notice if I would take over its chairmanship in that situation. After a brief period of consideration, I accepted the challenge and put myself up for election for one year. I did this out of a sense of responsibility to the bank, its shareholders, its clients, its employees and the wider community, even though it was not quite in line with my career plans.

At the time, I promised to lead UBS through a profound transformation process because it was clear to the Board and to me that it was time to turn over a new leaf.

Today, I stand before you charged with the task of outlining what we have undertaken and achieved in the last 12 months.

I would like to make three statements in this regard:

1. We have introduced a fundamental transformation process within the bank which we have implemented to a large degree and which goes far beyond what we had planned a year ago.
2. The subprime crisis erupting at that time has since expanded into a worldwide banking and financial crisis – a veritable global economic crisis. The effects of this deep recession are now also palpable in Switzerland.
3. Despite the transformation process and due to the intensification of the crisis, UBS continues to find itself in a precarious situation and is still fighting to return to the road of success. We had to ask the Swiss National Bank and the Swiss government for help in stabilizing the bank.

Allow me to explain all of this in greater detail and look back on the key events.

The crisis reached its first peak right before last year's annual general meeting (AGM). In mid-March 2008, the US investment bank Bear Stearns collapsed and was temporarily taken over by JPMorgan. In early April 2008, the International Monetary Fund (IMF) estimated that the losses resulting from the credit crisis would reach about one trillion US dollars.

On April 21, 2008, the Bank of England presented its first stabilization package for British banks in the amount of 50 billion pounds sterling. This was followed by a period of relative calm, until the US mortgage bank IndyMac collapsed in mid-July 2008 and the US government was forced to step in and support its partly state-controlled mortgage institutes Fannie Mae and Freddie Mac. In the days following the nationalization of Fannie and Freddie on September 7, the crisis heightened toward its climax. The five weeks following September 13, 2008 will without a doubt be considered one of the most dramatic periods in financial history. Over the weekend of September 14, 2008, US authorities and key industry players desperately attempted to save the failing Lehman Brothers – to no avail. And on Monday, September 15, 2008, Lehman Brothers was forced to declare bankruptcy. On the same day, Bank of America took over one of the largest global investment banks, Merrill Lynch. And in that same week, Goldman Sachs and Morgan Stanley applied for banking licenses, which resulted in the virtual annihilation of the old model of a Wall Street investment bank.
That week also saw the US Fed being forced to come to the rescue of the world's largest insurance group, AIG, with a rescue package totaling 85 billion dollars. Finally, still during that same seven-day period, Lloyds TSB had to take over the ailing UK mortgage bank HBOS. In the following weeks, negative headlines about the financial industry covered front pages everywhere. I will just mention some of those stories here:

- US authorities had to close Washington Mutual, one of the largest regional US banks;
- Major European bank, FORTIS, had to be taken over by the government in Belgium and Holland;
- At the end of September, the US government announced a 700 billion dollar package to stabilize the financial sector;
- The mortgage bank Bradford & Bingley was nationalized in the UK;
- In Europe, the first governments began guaranteeing bank deposits and loans between banks;
- The British government had to step in several times to save RBS, Lloyds TSB and HBOS;
- Central banks cut interest rates several times in the hope that this would stimulate the credit markets, and the Chinese authorities presented an aggressive fiscal stimulus plan of more than 600 billion dollars;
- Governments and finance ministers worldwide began coordinating their actions in forums such as the G7 and the G20;
- The US government had to intervene several times in order to keep its largest banks, such as Citibank and Bank of America, above water;
- The IMF doubled its original loss projections from 1 to 2.2 billion US dollars.

- Right after taking office, new US President Obama authorized an additional fiscal program intended to stimulate the economy with an injection of 800 billion US dollars.

All in all, it is safe to say that the global financial system teetered on the brink of collapse for weeks and months, forcing governments worldwide to intervene to an unprecedented extent.

And, despite all of this, the situation has yet to finally stabilize today.

What action did we take at UBS during this annus horribilis?

At the AGM last April, I told you that it would take grit and determination to weather this crisis . It was in this spirit that the Board of Directors and Group Executive Board set about tackling the problems we faced.

- We redefined our system of risk control and considerably reduced the bank's risks.
- We strategically repositioned the bank.
- We drastically reduced the balance sheet and at the same time recapitalized the bank.
- We fundamentally redefined corporate governance.
- We replaced nearly all members of the Board of Directors and management.
- We solved the key legal problems that for a time had threatened the bank's existence.
- We devised a new compensation model that is revolutionary in the industry.
- And, least but not least, we learned how to cope with direct government influence on our business activities. This was completely unexpected and new to us.

Allow me to turn to this in particular:

- Before the last AGM, we had already begun a detailed analysis of the mistakes we made in connection with the subprime crisis. Based on this analysis, we created a report for the SFBC, what is now FINMA. We also provided a summary of the key findings to you, our shareholders, and to the public for review. The report revealed that we at times made grave errors in the areas of strategy, risk control, internal cooperation and reporting. We sincerely apologize for this. Most importantly, however, we immediately started to correct these mistakes. This process of learning, changing and repositioning is very complex and takes time; we are still working on it.

- We largely reduced our risks stemming from the subprime crisis. This was accomplished through writedowns, sales, a large transaction with the company BlackRock and finally a transfer of the affected risk securities to a stabilization fund financed by the Swiss National Bank. In all, we were able to reduce our risk positions by about 88 billion francs between the end of 2007 and December 31, 2008.

- At the same time, we drastically reduced our balance sheet by about 500 billion francs between mid-2007 and the end of 2008. Excluding the positive replacement values reflected by derivatives contracts, the balance sheet was reduced by as much as 1 trillion francs, which nearly amounts to cutting the balance sheet in half.

- During the course of 2008, we brought operating costs down from 35.5 billion to 27.6 billion francs.

- We had already begun to gradually strengthen our capital base prior to the last AGM. Key milestones in this process were a transaction with the government of Singapore's investment company, GIC, a general equity issue and finally the Swiss government's participation that was announced on October 16. These and other measures resulted in a total inflow of 42.5 billion francs.

- We have redefined the key elements of our corporate governance and risk control. In concrete terms this means:

  – We draw a clear distinction between supervisory and executive responsibilities;
  – We have eliminated the Chairman's Office;
  – We have set up a new risk committee;
  – And we have restructured and reconstituted the Group Executive Board at the operational level.

- Furthermore, within the past year we have replaced nearly all members of the Board of Directors. If today you elect the four proposed candidates to the Board of Directors, this will leave us with only three members on the Board who were already sitting on it – some of them only for a brief time – when the subprime crisis broke out.

- The strategy of the bank – and especially of the Investment Bank – has been redefined. We have decided to radically scale back the Investment Bank's activities, to withdraw from speculative proprietary trading and to concentrate on the advisory and commission business in support of clients. The Investment Bank will therefore be downsized and in the future have a considerably lower risk profile. As a bank as a whole we want to streamline and strengthen our focus on the field of wealth management. The renewed focus on Switzerland alluded to above – where UBS occupies leading market positions in all areas – is being bolstered by the creation of the new position of a CEO Switzerland, who is a member of the Group Executive Board.

- We have also modernized our management team in other areas. The Group Executive Committee is now comprised of entirely different people than it was a year ago. And two-thirds of the members of the Group Executive Board have been replaced. This rejuvenation process climaxed in the appointment of Oswald Grübel as our new CEO. Mr. Grübel is one of the most experienced and respected bank managers in the business, and and he has been assigned the task of successfully navigating the next phase of the turnaround and steer UBS back – or rather forward – to success. But that is not all.

- In the past year we have solved some of our most important pending legal issues. In June we settled the legal dispute with Parmalat, and in the same month we announced a comprehensive settlement for all clients holding auction rate certificates. This February we were also able to conclude our largest legal case, namely the investigation by the US Justice Department and the US Securities and Exchange Commission (SEC). The implications of this settlement for the bank have since received so much publicity that I do not need to go into any more details here. Still pending is the dispute with the US tax authority, the IRS, regarding the disclosure of further client names – the so-called John Doe Summons.

- Moreover, we are the first financial institution in the world to have developed a completely new compensation model – one which you can vote on today in a consultative capacity. We are also the only bank in the world to have implemented a comprehensive bonus clawback program, which thus far has yielded over 80 million Swiss francs in returned bonuses. We have reduced our bonus payments to a more significant degree than any other financial institution worldwide. I know this is still not regarded as sufficient by many sectors of the Swiss public. I can assure you, however, that the Board of Directors and the Group Executive Board agonized long and hard with the supervisory authorities about where the line should be drawn. After having had to call upon government money to strengthen our capital base, we now need to strike a careful balance between public interests, on the one hand, and the need to retain employees in key positions within the bank, on the other.

- We have clarified responsibilities in a rigorous and independently verified process. Work here is still underway. My successor and the new Board of Directors will tell you more about this once the process is complete.

- Finally, we have instigated a cultural change within the bank – the effects of which should not be underestimated. This change is intended to create a UBS that is less bureaucratic and more fast-acting, that is even closer to its clients and that is geared even more consistently to long-term success.

That brings me to the end of my look back on what turned out to be an extremely eventful and challenging year. So the next question is: where are we today?

Let me answer this with the following four statements:

1. UBS is alive and well. It is a large global bank present in more than 50 countries with around 76,000 employees – more than half of them located outside Switzerland – who day in, day out do everything they can to provide their clients with the best possible services. It is a leading wealth manager and occupies a commanding position in other key sectors of the banking industry as well.

2. UBS is different. It has changed and reinvigorated itself over the course of the last 12 months. No stone has been left unturned, no taboo has been left unchallenged.

3. We have still not yet reached our goal. And we are still not where we had thought we would be 12 months ago. In particular, we still have not definitively crossed the threshold back into profitability, and there are still many changes we need to make at an operational level in order to make our working processes more cost-effective, more efficient and – ultimately – more beneficial for our clients.

4. The outlook for the financial industry – and for the economy in general – remains uncertain. Everyone is still holding their breath and waiting to see where the journey will take them. Because, even if the first signs of a recovery are emerging, the financial markets have by no means returned to their former stability. What is more, the world is slipping deeper and deeper into a general recession, and the economic forecast for the current year is getting gloomier by the day.

I would like to leave you with three parting thoughts:

Number one: What UBS needs now is calm and trust. The more clearly we can focus on the tasks ahead of us, the quicker we can turn our bank around. Today it is being managed by people who had nothing to do with the mistakes of the past. In order to maintain and complete this turnaround successfully, they need and deserve trust – your trust!

Number two: What the political discussion needs now is an increased sense of composure and resolve. As a consequence of the financial crisis, and not least as a repercussion of growing government debt in many countries, Swiss bank-client confidentiality has come under pressure from all sides. But as strong as the political demands from abroad may be, and as heavy-handed as they may sometimes seem, this is not the first time this has happened. The practice of bank-client confidentiality has been continually adapted to changing situations in the past. And we will succeed in doing the same this time around as well.

What is currently under discussion is not the cornerstone of bank-client confidentiality as such, but rather the way in which we provide foreign governments with information within the scope of administrative and judicial assistance proceedings. Even if Switzerland recognizes Article 26 of the OECD Model Convention, Article 47 of the Swiss Banking Act, in which the principle of bank-client confidentiality is enshrined, will remain in place unchanged. The existence of our financial center will not be endangered through our cooperation with foreign governments in this area. Switzerland is a solid, competent and well-organized financial center. True, changes will need to be made, but if we make these changes correctly our financial sector will be able to preserve its strong position in international competition and continue its vital contribution to the Swiss economy.

Number three: We must not let our actions be guided by knee-jerk fiscal reactions. It would be fatal to consider turning our large banks into small ones as is being demanded within certain circles. Switzerland owes a large part of its prosperity to its transnational and multinational economy, as well as to the fact that it has been an active player in the process of globalization for several decades and is the home base of many multinational companies. It is no accident that in uncertain times such as these more and more companies are relocating their headquarters to Switzerland. These international companies, our country's international trade and, last but not least, our private banks and other financial market players rely on the global network of our large banks. Without large international Swiss banks Switzerland would not only lose a vital feature of its economic identity; it would also lose a major portion of its global competitive edge and therefore a key driver of its prosperity.

Ladies and Gentlemen, dear Shareholders,
I know this is a difficult time and the financial crisis has placed a heavy burden on Swiss politics and the Swiss public. UBS is partly to blame for this. But I would also like to remind you that even after deducting all of the losses of the last two years UBS has still generated a net profit of more than 40 billion Swiss francs so far this decade and furnished our country with commensurately large tax contributions. It is our declared objective to start making such a contribution again before too long.

I am firmly of the opinion that we should not lose sight of the bigger picture when discussing issues such as bank-client confidentiality, the future of our financial center and the structure of the big banks. If we combat the crisis with a well-thought-out program, if we gather together our brightest minds from politics and the private sector and get them working on a solution, if we support one another and also receive support from our media and political environment, then we will find ourselves back on the path to success as quickly as we fell off it.

My first thank you goes to our employees. They are the cornerstone of this bank. For almost two years now you have been grappling with this crisis both personally and professionally. This is often a difficult and frustrating task. Nevertheless, our roughly 76,000 employees are doing their best each and every day to ensure that their clients and our shareholders are again satisfied. When I walk through the lobbies and offices of the bank, I see far more dedication and commitment in the faces of our employees than I do dejection. Therefore I extend to all of those who work for us our sincerest thanks and recognition.

I would also like to thank you, our shareholders, and our clients. Many of you have criticized us during this difficult time, but you have never failed to support us. And alongside understandable anger we have also been lucky enough to receive signs and signals of encouragement. We do not take this for granted. We know it is something to be valued. And I thank you for it.

Ladies and Gentlemen, dear Shareholders, I was Chairman of the Board of UBS for one year. It was both an honor and a challenge to lead such a large and important institution. Now I gladly step back into the ranks and wish my successor all the best. I would like to thank you for the trust you have placed in me. The time has come for me to sign off.