UBS

Annual General Meeting
April 14, 2010

Speech by Kaspar Villiger, Chairman of the Board of Directors of UBS AG

Check against delivery.

Dear Shareholders,

I.

Today the new UBS team will report on a full financial year for the first time. We do this with a profound sense of satisfaction and pride. UBS has achieved a great deal: it is financially stable and well capitalized, has significantly reduced its balance sheet and risks, boasts excellent liquidity, is implementing a promising strategy, and has returned itself to profitability. This is more than we could have expected a year ago.

But we are not only proud; we are also grateful. The government and the national bank supported UBS in its time of need. You, our valued shareholders, stayed true to us. Most of our clients – the backbone of our bank – also remained loyal to us. And, last but not least, our employees gave us their best even when faced with adverse circumstances. We owe our thanks to all of these groups.

However, we also stand here today with a feeling of humility: because we know how much UBS – an institution of which our country was so proud – has disappointed the Swiss people. And finally of commitment: because we know that although our bank has turned the corner, we still have a long and arduous road ahead.

II.

I would like to start by making a few general remarks on the events surrounding UBS and the difficult environment in which we are now striving to move the bank forward. Oswald Grübel will then give you a detailed report on the bank's performance.

UBS is one of the flagships of the Swiss economy. When a flagship like this gets into distress, the disappointment is immense. We still feel this today, day in, day out. Yet UBS was and continues to be a vital pillar of the Swiss economy. Its collapse would have had dramatic consequences for Switzerland and its economy. State intervention was therefore justified. For UBS, this assistance brings with it an obligation. We want to manage the bank in such a way that we can, as far as humanly possible, avoid such a situation ever happening again. Through delivering excellent performance, we want to prove ourselves worthy of everything that Switzerland, its people and its financial center have given us. We are therefore very pleased that the government was able to sell its temporary stake in UBS at a profit of CHF 1.2 billion in favor of taxpayers.

We are an international, globally active bank. Our clients are located throughout the world, the majority of our employees are no longer Swiss citizens, and two-thirds of our shareholders are located abroad. But UBS in Switzerland remains the cornerstone of our bank. Our culture must be anchored in proven Swiss values such as solidity, sustainability, quality, excellence of service and truthfulness. We are working hard to uphold these values – values which also form the foundation of our success at the global level.

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III.

Trust can be destroyed overnight. But rebuilding it is a long and arduous task. We are well aware of this. I am grateful that management and employees have not relented in their efforts, although on occasion they may have the impression that the unyielding barrage of criticism from politicians and the media keeps growing louder and louder no matter how well they do their jobs. They did not cause the crisis, and many of them could pick up tomorrow and find an attractive position elsewhere with much less criticism. But they are sticking with it.

Trust is generated through action, not through PR or hollow words. That is why we are continuing to work hard and push forward with perseverance and determination. Everything we do must be in the interests of our clients, and we must always provide them with the full range of our world-renowned expertise: this is the core of our new strategy. We and our shareholders will be successful only when we make ourselves the best partner in meeting our clients' financial needs.

IV.

I started by saying that we are happy with what we have achieved since the last annual general meeting. We believe that UBS has tremendous potential for the future. We are therefore approaching the coming years with confidence. However, the environment will remain difficult. I would like to say a few words on this.

We are still very concerned with one problem which, at least until the much discussed recent decision by the Federal Administrative Court, we thought had been solved. It concerns some of the 4,450 accounts of former US clients which the Swiss Federal Tax Authority must provide to the US tax authorities under the agreement reached last August between Switzerland and the US. However, according to the court this may only occur if Parliament approves the US-Swiss agreement. I am aware that UBS triggered this problem itself and we are deeply sorry. But now it has developed into a problem involving national governments. Not complying with an agreement that is binding under international law would damage Switzerland's credibility abroad and could dramatically impact economic relations with the US. I understand that Parliament is struggling with this decision. But it is now much more than UBS which is at stake. I would like to mention that UBS has carefully and promptly performed all of the duties imposed on it by the US and Swiss authorities.

UBS will never release the data illegally. We do not want anyone at this bank to break the law. Compliance with law is one of the primary responsibilities of the Group Executive Board. If we were to release the data in violation of the law, it would be a disastrous sign for the entire financial center, which would lose even more credibility. I also do not understand how there can be politicians who want to impose conditions on a simple and legally accepted solution to an international problem, conditions which could significantly worsen the position of the financial center.

V.

The greatest problem in terms of domestic policy is that of bonus payments. Here, UBS has a dilemma. On the one hand, calls for moderation and preventing excess are understandable and appropriate. On the other hand, in order to survive in a competitive environment, UBS must be able to retain and recruit the most capable and trustworthy professionals in a labor market that remains challenging. Nevertheless, we were the first major bank to dramatically adjust our remuneration system to increase sustainability and appropriate risk-taking. I will come back to these issues in the compensation report.

However, here I would like to address three basic questions concerning remuneration policy in the financial sector, and they are the following:

1. Does the financial sector pay excessively high salaries?
2. Do bonus systems create incentives to take on risk carelessly?
3. Should a bank that is assisted by the government or that makes a loss even pay bonuses?

The financial sector pays higher salaries than the so-called "real economy." You may wonder whether this discrepancy is justified. I believe that some salaries, especially at higher organizational levels, have become excessive in recent years. However, the new regulations and market conditions should result in moderation over the long term. But the level will probably remain above that of the real economy. Good people who generate high revenues with their teams are still highly sought after. Retaining and recruiting them requires compensation at levels that are customary in the respective job markets. This is the only way to manage a major bank successfully. UBS cannot change that. On the other hand, it is certainly not at the forefront of excessive executive compensation. We cut back too much last year, causing us to lose entire teams, their clients and the corresponding revenue – and it was too high a price to pay. We had to make corrections in order to stabilize the bank. Incidentally, many of our best people are still being recruited by head hunters and competitors.

To answer the second question, you must bear in mind that the incentive systems were clearly faulty since they encouraged taking risks that were too high. We were the first major bank that publicly curtailed and systematically corrected this. In this regard, the mindset in the sector is now in the process of shifting in the right direction. That is good news.

The third question has practically been answered by the first question. A bank that is supported by the government or that makes a loss should be expected to be conservative when paying salaries. But requiring it to refrain from paying any bonuses at all and not permitting it to pay compensation in line with market rates means taking away its chances for recovery and survival. That is why I strongly reject the criticism of our remuneration policy. It fails to acknowledge the realities. We had to act in a manner which would enable us to once again create added value for you, our esteemed shareholders.

We should also not forget that a bonus essentially has four components. The first part is a flexible salary component that could in principle be built into the base salary. But that would not be wise, because it would take banks much longer to adjust costs in the event of a recession and they would have to resort to layoffs sooner. The second part comprises a payment made to everyone if the bank performs particularly well. This component may be eliminated if the bank makes a loss. The third component is individual performance. Should exceptional performance by an individual go unrecognized just because the bank is having problems in general? Or should individuals receive nothing if they are able to reduce a loss of 10 billion to a loss of 1 billion under extremely difficult conditions, e.g. in the case of particularly problematic toxic assets? And what about those who could earn perhaps three times their salary performing a less challenging job at a more successful competitor? The fourth part includes payments designed to help the bank retain good people. You could call these employment market incentives. They were essential to ensuring that UBS could even carry on. Naturally, large severance packages for those who fail, for example, must be done away with.

Proposals have been put forward calling for the rejection of our very extensive compensation report. However, the Board of Directors is convinced that not approving the report goes against the interests of our shareholders. Why?

Last year's compensation report outlined for the first time criteria for the Executive Board which will ensure sustainable and risk-appropriate remuneration in the future. That report could not, as would usually be the case, be applied to the prior year, as the key criteria were not yet in force. This year's report is more comprehensive and applies in full to the financial year just concluded. This change in the system will also result in bringing to UBS a reporting rhythm that is common in the sector. Critics are now saying that the remuneration policy does not meet the criteria set out a year ago and that it is not appropriate to change the concept approved by shareholders last year.

This criticism is unjustified for three reasons. As I already mentioned, the introduction of the new remuneration system resulted in departures which began to endanger the stability of the bank. We felt compelled to make targeted increases as well as certain adjustments to the benchmarks for the cash components. At the same time, approximately 1,000 key top performers received an additional stock-based instrument which extends over a period of five years and has strict expiry provisions. It creates strong incentives to stay at UBS. This instrument is only being offered once and is not planned for future years. All of this enabled us to avoid a dangerous staff exodus.

Secondly, this has not changed the fact that the remuneration system is focused on sustainability. The adjustments within the salary components are consistent with the principles of last year's report.

Thirdly, modifications must be allowed if the economic success of the bank is on the line. This is the only way to generate shareholder value. However, the change in the system gives shareholders an opportunity to once again voice their opinions on the modifications. This is appropriate, democratically speaking. The vote, however, is consultative, meaning that the results are not binding for UBS. Nevertheless, we will take the results of the vote very seriously and analyze them closely.

VI.

I would now like to make some remarks on the fact that UBS continued to draw heavy criticism last year even though it actually did everything right.

I stated at the outset that there were good reasons for the support that the Swiss government and the national bank gave our firm. More than once, government officials made courageous decisions in order to clear away obstacles for the bank's long-term stability. But legal decisions -- about which I do not wish to comment -- created new uncertainty. The bank and government officials are working hard to remove any remaining obstacles and avoid new ones as well.

The largely new Board of Directors and a new management team under Oswald Grübel, together with employees, have put a lot of dedication and energy into the task of righting the UBS ship. We have made more progress than we could have expected one year ago. I would like to repeat once again that senior management is rightly proud of what has been accomplished. Oddly enough, the Swiss public has not shown much interest in these accomplishments. In contrast, there have been emotional debates about why those in charge at the time of the debacle are not being sued, and about who might have exceeded their authority and when. Those are certainly important questions. But we must make sure that we do not lose our momentum and desire to shape the future by allowing ourselves to become mired in the past.

Nevertheless, the Board of Directors has by no means dropped the question of responsibility for the debacle. But this question must be dealt with in a sober fashion and without emotion. The key question for the Board of Directors is how best to increase shareholder value. The Board of Directors has by no means dismissed the need for investigations of former senior executives responsible for the debacle. In fact, no bank to our knowledge has ordered more internal and external investigations or cooperated so extensively with supervisory authorities in their probes regarding the events surrounding the cross-border asset management business in the United States and subprime losses. None of these nearly 10 internal and external investigations have brought forth evidence that would seem to offer the potential for bringing legal claims against former members of senior management. The Zurich district attorney's office also came to the same conclusion.

But there is more. The Swiss Code of Obligations states that the Board of Directors must protect the interests of a company. This can even mean in some cases that the board should not press legal claims if there were some chance that they would be successful (though in our case we clearly doubt they would be successful). Experience shows that such trials last a minimum of 10 years, cost millions of francs, keep a company in the headlines for years, lead to paralysis within the company, and in the end turn out to be much ado about nothing. All this is not in the interest of the company or its shareholders. Moreover, a mistake made by a company is not in and of itself liable to prosecution. If this were the case, no reasonable person would ever want to become an entrepreneur. This would have catastrophic consequences for our economy.

Because we want to focus on the future and close the chapter on the past, we are proposing that you grant formal discharge for the years 2007 and 2008. This move is correct both in a legal sense and in terms of corporate policy. Postponing the discharge would not change the situation. And simply waiting five years until the statute of limitations on all claims has expired does not seem to us to be the proper solution. It would thus undermine the right of shareholders to grant or not to grant discharge.

However, we underestimated the public's reaction to this proposal. From our current perspective, we still see this proposal as the logical course of action, but it was also politically unwise. It was never our intent to enshroud the past in silence or to undermine the parliamentary investigations. Our focus has always been on the future and on protecting the interests of the company. In any case, the discharge does not protect the board members and senior executives who were in charge if new, previously unknown facts come to light. The same holds true for any new findings that come out of the parliamentary investigations.

Many political figures, including some Federal Councilors, as well as supervisory authorities urged us not to include the discharge for 2007 and 2008 on the agenda. It was not easy for us to ignore these recommendations, as the persons making the suggestions presented sound, reasonable arguments for their case. But our own in-depth analysis showed that a belated withdrawal of this item from the agenda could have led to new legal risks whose consequences must not be underestimated. It is thus clearly the right decision to give shareholders the possibility to vote on whether or not to grant discharge.

For me there is something more important. There is a moral corporate responsibility that goes beyond the courts and criminal justice. And this responsibility weighs heavily. Former board members and senior management of UBS made some wrong business decisions that led to one of the biggest near-catastrophes in the history of the Swiss economy. The decisions they took they made in good faith. Nobody wanted to cause damage to UBS. But they must face this moral responsibility. Marcel Ospel, Peter Wuffli, Stephan Haeringer and Marco Suter as well as two former non-Swiss members of the Group Executive Board have repaid and voluntarily agreed to forego contractually fixed benefits amounting to CHF 70 million, thus accepting responsibility without admitting to any guilt. It is important to remember this fact. Together with other additional smaller payments, these amounts reach the dimension that my predecessor had estimated at the last AGM.

VII.

There is currently a lively debate underway about whether the big banks are too big for Switzerland. It is a legitimate debate in light of the support given by the Swiss government and the Swiss National Bank. We are not shutting ourselves off from this discussion. But this debate, depending on its outcome, could have important consequences for the strategic options of UBS. UBS does not want to be big for big's sake. Size is not a goal in and of itself. But UBS wants to provide complex, high-quality and integrated services to clients both here in Switzerland and abroad. These clients include not only our private clients in Switzerland, but also small and medium-sized firms, Swiss firms operating globally, clients who invest worldwide and also other Swiss banks.

We have a model that is tailored to Switzerland. It is not driven by tax considerations, but it also brings benefits to the Swiss tax authorities and to the economy. This model may indeed be the only possibility for a small country to ensure it retains its standing as a major financial center. But this model requires a certain size, and it is inconceivable without the services of the Investment Bank for our clients. The Investment Bank is not a purpose in and of itself. It is a service we offer. Two thirds of our shareholders come from abroad. They put their money to work in Switzerland because they believe in this model and because they believe in Switzerland. We have to include the motivations of these shareholders in our considerations as much as we do the motivations of our Swiss shareholders.

What is to be done so that our model can be operated from Switzerland without the risks becoming too large for the country? We believe it is possible. First, the bank has to do its homework: reduce the balance sheet and risks, set up a sustainable and risk-adequate compensation system, focus the Investment Bank on client needs, improved risk management, sufficient liquidity, etc. We have done all that. We believe that UBS is no longer an unacceptable risk for our country. Second, Switzerland has issued capital, debt and liquidity requirements that are strict in international comparison. These regulations make the large Swiss banks and the system more secure. We accept these regulations. Third, there has been a lot of talk internationally about stricter regulations for banks identified as system-relevant. However, this discussion neglects to an alarming degree the consequences of overregulation for national and global growth. Switzerland must of course also adhere to any new global standards. However, should it come to a global patchwork of various laws and regulations – and there is unfortunately some indication we are headed in this direction – Switzerland must ask itself how much further it wants to go beyond the special restrictions that the big banks already face today. If the Swiss penchant for perfectionism leads to regulations that isolate the country and makes the future model of an integrated universal bank impossible to implement, it is legitimate to ask whether the additional risks to growth and the risk that the financial center will be bled dry actually exceed the supposed reduction in the remaining risks of the big banks. It should not be forgotten that in normal times the Swiss financial center contributes about 12% of GDP and around 20% of tax revenues. The contribution of a "normal" financial center is about 5% to 7% of GDP. It is easy to see what such a "normalization" would mean for jobs, tax revenues and the social welfare system in Switzerland. I know that these comments will trigger some heavy criticism. But in light of the major importance of this question, I feel it is my responsibility to comment on this problem despite the expected criticism.

VIII.

Even without the problems of the recent past, some of which will likely be with us for a while yet, it is difficult to manage such a large financial corporation in the current uncertain political, regulatory and economic environment. And there is also the difficult emotional discussion generated by bonuses and the mistakes UBS has made in the past. What's more, our competitors are not sleeping. They challenge us every day. But all this will not stop the team of Oswald Grübel and the Board of Directors from moving UBS progressively forward. We knew from the beginning that regaining trust would be a long and arduous path. We will continue on this path, with modesty, persistence and determination. We have highly qualified employees who give their all every day. This fact gives us the confidence that UBS will be able to remove any obstacles remaining on the path. In light of the major progress we have made, which makes us proud, and despite the highly charged emotional headwinds we face, the current management is not willing to perennially don penitential robes and constantly apologize for the past. They have accepted the responsibility to lead UBS into the future.

I ask that you judge us not only by what you read or hear about us, but by what we actually do.

Before I hand over the floor to Oswald Grübel I would like to underline the decisiveness and determination he and his team have showed in bringing the bank back on track. For this I would like to thank him and his team. Oswald Grübel, the floor is yours.