UBS

# Annual General Meeting
# April 28, 2011

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

***Check against delivery.***

Dear Shareholders,

Before looking at the road ahead, let's recall briefly the situation that UBS was facing just two years ago.

When I spoke to you for the first time at the 2009 Annual General Meeting, I did not have any good news to report. I promised you, however, that we would make some far-reaching changes at UBS so that you could be proud of your bank again.

One year later, at the 2010 AGM, I presented to you the measures we had introduced to get the bank back on track and to prepare it for the challenges ahead. We succeeded in reversing the trend. Although the results for 2009 did not yet meet our expectations, we were able to achieve our most pressing goals: strengthening our capital base and restoring our profitability.

The task for 2010 was to reinforce this positive development and to make further clear progress. In this we were successful. Last year we boosted our net profit to 7.5 billion francs. The Investment Bank made a solid contribution with a pre-tax profit of 2.2 billion francs, and did so by assuming less risk than most of our competitors. And we increased our core capital ratio to 17.8 percent, which is very high when compared internationally.

One year ago I made it an absolute priority to restore confidence in our bank step by step. In this regard, too, I am very pleased to announce today that clients entrusted more than 22 billion francs in net new assets to UBS in the first quarter of 2011. It is particularly satisfying that all business areas posted an increase here. This news and the other results, which led to a first-quarter pre-tax profit of 2.2 billion francs, underscore the good shape that our bank is in.

Although I know that there is still much work to be done, I am very happy that we have reached this milestone. It is a well-deserved confirmation of the enormous efforts made by our employees and a sign of confidence in them. I would like to take this opportunity to give them my utmost thanks.

I would also like to thank all the shareholders and clients who have stayed with us over the years or who have rediscovered their trust in us. We will do everything in our power to justify it.

Ladies and gentlemen, I am confident that the remarkable financial improvement that we have achieved in the last two years is sustainable and that it is based, first and foremost, on the fact that we have fundamentally reorganized the bank from the inside out.

Nevertheless, UBS has been accused recently of lacking the willingness to reform itself. The world has become a different place since the financial crisis but critics say that UBS wants to continue in its old ways. Ladies and gentlemen, this is not the case.

I say to you that no other bank worldwide has undergone such a radical overhaul as UBS to adjust itself to the new circumstances and address changing client needs, even if we do not say so every single day.

We have changed the structures and processes across the entire company and systematically eliminated the root causes that led to the previous large losses. We have reorganized our Group-wide service and control functions, in particular in the area of risk management, and we have optimized our liquidity and balance sheet management. As a result, we now have one of the highest core capital ratios.

Our client advisors and the business areas that support them have improved their Group-wide cooperation to react more flexibly to client needs. In addition, we have strengthened our value system and our code of conduct.

All this has helped us become as profitable as or even more profitable than comparable banks while being more efficient and, as mentioned, taking on fewer risks. I think this is something we can all be proud of.

I wish I could also tell you that the solid path UBS is heading down has paid off for you as shareholders. However, the share price performance in 2010 was disappointing. It is no great comfort that UBS shares performed very well when compared with those of our competition.

The fact is, the turnaround at UBS had already been built into our share price for quite a while, and the valuation of bank stocks today is subject to great uncertainties across the entire industry. I can assure you, however, that it is our top priority to work even harder.

Unfortunately, we must also ask for your understanding that, in the current environment, we will not be paying a dividend so that we can retain earnings to meet future capital requirements without diluting your shares further.

What is the story behind the new capital requirements?

In December 2010, the Basel Committee on Banking Supervision of the Bank for International Settlements presented a forward-looking reform package. This plan calls for shoring up the weaknesses that the global financial crisis revealed by requiring banks to build up an additional capital cushion.

Specifically, the Basel Committee recommends that banks increase their total capital to 10.5 percent of the new risk-weighted assets and to increase their high-quality core capital to 7 percent.

Some aspects of the Basel III package are still being discussed. Afterward, each country will decide how to implement these guidelines according to their own legislation. Therefore, a good deal remains wide open – in particular, how high the additional capital cushion will be for systemically relevant banks in important financial centers.

Switzerland wants to move quickly on this issue. Our big banks are very large in relation to the national economy; that is why we need to place a strong emphasis on this topic.

A committee of experts was set up last year to deal with this issue of "too big to fail." As part of this process, the committee defined some measures that would allow the big banks to go bankrupt without endangering the stability of the financial and banking system should there be a very severe crisis.

The committee concluded that the capital requirements of Basel III, which are already very stringent, should be made even more stringent for the big Swiss banks. Specifically, the total capital adequacy is to be about 80 percent above the Basel III requirements, while for high-quality core capital 40 percent more will be required than the amount recommended by the Basel Committee.

UBS had one representative on the 14-person committee of experts. We endorse the committee's work.

We want to say it loud and clear: the government should never again have to intervene to save a bank. We absolutely agree that every company must be able to go bankrupt if need be.

It is therefore reasonable and necessary – and I want to emphasize this point – for banks to be subject to more stringent capital requirements in the future. These requirements should be somewhat stricter in Switzerland in light of our claim to higher quality and greater security than in other countries.

You may be wondering then why we have concerns about this issue. And in fact we have not been successful in conveying this point to the media.

Our view is that it is important to carefully analyze the effects of the additional capital buffer being demanded on our financial center and the manufacturing industry before any legislation is set in stone. We also made this concern clear in the committee of experts.

If the financial centers we compete against on a daily basis implement capital requirements that are considerably less stringent, it is critical that we understand what the specific consequences will be.

If the result is competitive distortion, it would be sensible in our view to check again whether our measures and their effects are reasonably balanced.

Why is it so important for us to carefully examine the impact of the planned legislation?

I do not deny that the business of banking involves risks. On the other hand, the big banks are the main pillars of support for our financial sector, which is the most important driver of prosperity in Switzerland.

In recent months there has been a lot of talk about risks – and for good reason. But I would now like to remind you of the advantages the Swiss financial sector offers.

Before I begin, however, allow me to make an observation. If as a bank representative you bring your position and arguments to bear on this debate, the suspicion easily arises that you are doing this purely out of self-interest or to boost your salary.

We have to tolerate such criticism, no question. Many banks delivered disappointing results during the financial crisis. That's why "too big to fail" is an emotional topic. To engage now in some self-criticism, I would say that we probably did not give these circumstances sufficient consideration, and sometimes we adopted the wrong tone.

This does not change the issue that is close to our hearts, however.

Transparency is crucial, even if you sometimes have to say unpopular things.

There are also people who say that UBS should not be expressing its opinion on this subject at all because UBS is one of the main reasons we are having this debate in Switzerland in the first place.

There is no disputing the errors made by UBS at that time. In my opinion, however, it would not be right if we, who bear responsibility today, were to exclude ourselves from the whole debate.

Although you may not believe it, I'm not so concerned in this regard about the big banks themselves. It is a basic economic principle that businesses are most successful when they are given a favorable business environment to operate in, whatever industry we are talking about, and Switzerland is a prime example of this. A country must live with the general conditions that are in place.

In Switzerland these general conditions have been excellent over the last 75 years – and not only for banks. We have an impressive combination of strong small and medium-sized businesses, many internationally important companies and a financial sector geared to the needs of the economy. Switzerland is one of the most successful countries in the world.

The financial sector is not the only cornerstone of this prosperity. But its early international reach helped it make an important contribution. The global network of the country's banks, in particular the two big banks and their predecessors, has given the economy access to the international market and brought investors from these countries to Switzerland.

This is an important point because we need some of the money that foreign clients bring to Swiss banks to finance the local economy and the state. This is the main reason we have had an especially low interest rate environment for so many decades.

Low interest rates enable us to grant much cheaper mortgages in Switzerland and to support the economy with very low financing costs. This is a great location-related advantage that benefits not only the Swiss manufacturing industry but the entire country.

Loans to small and medium-sized businesses in Switzerland account for almost 90 percent of all corporate loans, or more than 300 billion francs. Swiss mortgage loans amount to more than 600 billion francs.

In addition, investment banking provides important services for Swiss companies, whether in the form of financing their activities, export financing, currency hedging, or securities transactions. The two large banks carry out about 70 percent of the capital financing and more than half of the debt financing transactions of Swiss small and medium-sized firms. It would be difficult to find such corporate finance expertise outside the big banks.

The services of an investment bank are also indispensable for a global wealth manager, for example in product development, client trading or the execution of international orders. After all, many of our clients demand services that are comparable with those of a company or an institutional investor.

In total, more than half a million people in Switzerland depend directly or indirectly on the financial sector for their jobs. This includes jobs at the banks themselves. But the big banks in particular have also helped other sectors to achieve above average growth, from law firms, management consultants and auditing companies to printing houses and translation companies. In addition, countless other small and medium-sized firms such as jewelers, clothing shops, car dealers and many more benefit from the banks and the purchasing power of bank employees.

If you add it all up, it becomes apparent that the direct and indirect added value of the financial sector is enormous. It is equal to about 88 billion francs, or 16.5 percent of our gross domestic product. The average amount of taxes paid by the banks per year is around 14 billion francs.

If Switzerland is the only country to place a disproportionate burden on its big banks, it could lose some of the prosperity it has gained. How much exactly is something one can certainly argue about because nobody can answer that question with certainty today.

Personally, I believe that the loss would not be insignificant. National economies are highly complex systems, which is why intervention often has unexpected side effects and it is not so easy to undo changes quickly.

What, dear shareholders, is the conclusion we can draw from all this?

I wanted to show you that decisions about general business conditions are very important, not least when it is a question of industries that have a great importance for the national economy.

The decision-makers now have to answer the question of how they can both minimize risks and maintain prosperity. I am convinced that it can be done. In making this decision, however, they will also have to take into consideration the international competitive situation.

This does not mean that we should not be independent in our actions and our decisions. Switzerland has its own standards, and rightly so.

The problem is that there is no easy answer to the question of finding the right balance. No one in this debate can claim that they have the absolute truth.

I believe it is the duty of the big banks to point out what the negative consequences for the Swiss economy will be. It is my hope that this point of view will be respected. Just as we respect others who give their arguments greater weighting than they do ours.

As for UBS, we want to continue to be successful in what we do, to remain independent and Swiss, and to make our contribution. That is what we strive for.

I would like to ask you, our shareholders: What would you do now? I am sure that you would like to reflect on this question. It is, after all, a question well worth pondering.

I thank you for your attention. And now I would like to hand over the proceedings to our chairman.