UBS

Annual General Meeting on May 3, 2012

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

Check upon delivery.

Dear shareholders,

I.

The anniversary

This annual general meeting is exceptional in that it occurs in our anniversary year. 150 years ago, the Bank in Winterthur, the predecessor of what would later become the Union Bank of Switzerland, was founded. Swiss Bank Corporation, for its part, evolved from Basler Bankverein, which was established 10 years later in 1872. UBS is ultimately the result of the merger between these two large banks in 1998. Although UBS had to contend with some serious problems during the financial crisis, this merger proved itself to be forward-looking and successful.

Today UBS boasts a strong capital and liquidity position, and is again profitable. It is impressive how much capital the bank was able to build up last year and in the first quarter of 2012 despite the regrettable loss incurred in London last year, and how much risk it has been able to shed. Between the first quarter of 2011 and the first quarter of 2012 alone the tier 1 ratio on a Basel 2.5 basis rose from 12.6% to 18.7%, making UBS the best capitalized bank in its international peer group today. Our earnings last year and in the first quarter of this year have been respectable given the challenging market conditions. This is thanks to the tireless efforts of our management and employees. They should be proud of what they have accomplished.

The stock markets and the general public are normally only interested in the future of a company, not its past. We therefore asked ourselves whether it was even appropriate to celebrate an anniversary in the first place. We decided it was for two reasons.

First of all, it is an opportunity for us to thank four important groups: you, our shareholders, who remained loyal to us even when times were tough; our clients, whose confidence has helped us through difficult times and spurred us on to become a better bank; parliament, the Federal Council, administrative bodies and the National Bank, who have lent us their support in spite of nagging doubts and frequent unease; and, last but not least, our employees, who have stayed the course and have continued to work tirelessly for our clients even in trying circumstances.

Additionally, by revisiting our past we want to seek out success factors we can build upon and identify mistakes we need to avoid.

II.

The lessons

There are essentially five lessons which we can draw from our long history and which will shape our strategy going forward:

1. Banks must serve the economy and, thus, society.
2. We are doing well if our services meet the needs of our clients.
3. A company can only be successful over the long term if it continually adapts to changing circumstances.
4. A bank must be solidly financed.
5. Reputation is the most valuable capital a bank can have.

2.1 Serving the economy

Banks have four key functions. First of all, they transform readily accessible savings into long-term investments. Second, they ensure the broad distribution of risks. Third, they finance international trade. And fourth, they amass a huge amount of information on market prices. To put it another way, they pump the lifeblood of the economy. Without banks, there would be no prosperity, either on a national or on a global level. Drawing a distinction between industry and finance is therefore artificial. Yet, we must no longer allow excesses and dangerous systemic risks to arise because banks are only looking out for themselves or one another by exploiting more and more complex financial constructs. Sustainable success can only be assured if what we do serves the economy as a whole, including within the Investment Bank.

2.2 The client is king

Only if we use our reliability, expertise and quest for perfection to develop workable solutions for our clients will these clients pay the prices asked of them and stay loyal to us over the long term. We wouldn't be here now if we hadn't always done this. But we can still become better at it – in the way we analyze the true needs of our clients as well as in the way we provide excellence of service.

2.3 Constant adaptation

Circumstances change. The needs of our clients change. Nothing stays the same forever. If you don't change with them, you are doomed to fail. We currently find ourselves faced with some daunting challenges. I want to highlight just three of them here.

Number one: The rapid erosion of bank-client confidentiality in tax matters and the spiraling administrative workload involved in the cross-border wealth management business are putting margins under pressure. This will irrevocably change the structure of the industry. UBS, due to its international diversification and ability to distribute costs over large volumes, will be more than capable of adapting to this.

The second challenge is the uncertain economic situation. The outlook may have brightened recently, but the improved conditions in the markets seem not to be sustainable so far. People in the industrialized nations will continue to pay a high price for the frivolous financial policies of their politicians for some time to come.

A third challenge is the massive wave of regulation. Some important lessons have been learned, to be sure. The increase of better-quality capital and the improved insolvency proceedings we have are welcome, for example. However, the regulators' proclaimed goal of achieving a more or less harmonized regulatory landscape is not a realistic one. Every regulator is primarily concerned with their own country; coordination between the various regulators regarding international banks is inadequate, since protectionist interests always gain the upper hand. Certain regulations are driven more by day-to-day political emotions than by sober analysis. This brings with it new risks and distorts competition. The regulatory jungle is becoming increasingly expensive and difficult to navigate, is leading to competitive inequities and forcing certain businesses into the unregulated shadow banking sector.

UBS is investing a great deal in making the necessary process adjustments. A buildup of capital, a scaling back of risks, a reduction in the complexity of the Investment Bank, and strict cost management are all core elements of our new strategy.

2.4 Crisis resistance through stability
We have never disputed, in principle, the need for better capitalization within the banking industry. We only questioned the distorting effect that sharply diverging national capital requirements would have on competition. Particularly in times of uncertainty, good capitalization inspires confidence among clients. We have acted precisely with this in mind. If I compare the UBS of today with the one I encountered when I took office, they are worlds apart. The old core capital ratio according to Basel 2 has risen from 10.5% to over 20%. Common equity according to Basel 3 has more than doubled, as has the FINMA leverage ratio. UBS has been profitable again since the fourth quarter of 2009.

You, valued shareholders, have made a vital contribution to our capitalization by forgoing your dividends. I would like to take this opportunity to thank you for your understanding and support. We will continue to build up our capital in the coming years. However, our strong capitalization makes it acceptable for us to pay out a dividend again for the first time.

2.5 Reputation is our most valuable asset
A bank can only survive if it enjoys the trust of clients and the general public. Reputation is thus our most important asset. It only takes a single reckless act to lose it, but it can take years of hard work to rebuild. UBS has experienced this many times in its recent history: in, for example, the dormant assets affair, the financial crisis and the loss in London. We have already done a great deal to restore our reputation. I have already mentioned our solid capitalization. The government was able to sell its investment in UBS at a billion-franc profit, while the Swiss National Bank has already profited from the StabFund and will in all likelihood not make a loss on its loan. In addition, our US problem has been resolved. However, a lot remains to be done. We are taking great pains to ensure that a trading loss like the one suffered in London does not happen again. We are determined to create a corporate culture that focuses not only on creating values for clients and investors, but regards it as important to do so for other stakeholders such as the state and society. These values are also shaped by our history as a Swiss bank.

III.

Money does not grow on trees
In spite of the financial and economic crisis, Switzerland is in enviably good economic health. But money does not grow on trees. Wealth is generated by the economy. Indeed, Swiss companies have achieved remarkable things in recent years. The public debate on manager salaries and also the problems faced by UBS have put large companies in Switzerland in the firing line of critics. In contrast, our SME structure is almost idealized in the political arena. It is true that highly productive SMEs form the backbone of our economy to a certain extent. But it is also not the whole truth. Without our listed companies our current economic standing would not be conceivable. Together with their suppliers (many of which are SMEs) they generate about one-quarter of our economic output and pay 42% of corporate taxes. For its part, the financial sector accounts for around 16% of GDP, including suppliers, and pays, excluding suppliers, 12% to 15% of taxes. In recent decades, foreign assets invested in Switzerland have resulted in an interest rate advantage of over one percentage point. It goes without saying what this means for SME loans and mortgages.

A high-performance economy of this kind can only flourish under favorable conditions. A stable political system, a basic liberal order and the work done by generations of politicians, entrepreneurs and public servants have created precisely these conditions. This is also beneficial to our companies. But hard-fought competition has broken out between business locations.

Switzerland will only be able to preserve its prosperity if it continually improves its economic conditions. This is primarily the task of politicians. Many welcome efforts have been made in this regard in recent years. Take, for example, the bilateral agreement with the EU, the various free trade agreements, the restructuring of state finances and the negotiations on the final withholding tax. However, there are also numerous political measures whose implementation could affect the quality of our country as a business location to the extent where it rapidly jeopardizes our prosperity. Experience has shown that today’s highly mobile economy reacts extremely quickly to economic policy errors. I will limit myself to just a few examples here: the ongoing assaults on labor market flexibility; attempts from both the left and the right to create political capital from the Swiss National Bank; the worsening of corporate law through the Minder initiative and its counter-proposals; attacks on the free movement of persons; the tendency on the part of financial supervisory authorities to overshoot international standards or even legal requirements. In addition, external rating agencies and foreign authorities are increasingly voicing the concern that, unlike other countries, Switzerland no longer backs its large banks. This is reflected, among other things, in their ratings, with all the negative consequences this brings with it, and is damaging for client relationships. The mistakes made by individual companies (including UBS) and individual managers over the years should not be used as a pretext to introduce regulations that damage Switzerland’s competitiveness as a financial center over the long term. Switzerland needs to decide whether it wants to be a location for multinational firms or whether – because certain global rules are not to its liking – it would rather forgo this opportunity and suffer the consequences this will have on its prosperity.

Switzerland is important to UBS as it contributes around a third of our business volumes, making it indispensable to our business, and because even a major international company needs a place it can call home, a place whose values inform its culture. We continue to firmly believe in Switzerland as a business location – as evidenced by the UBS Education Initiative. However, precisely because we hold this conviction, we believe it gives us the right and the obligation to point out when policymakers are heading down the wrong path.

IV.

On banking confidentiality

Earlier I mentioned the erosion of banking confidentiality as one of the greatest challenges facing the financial center. I'd like to make a number of additional points about that.

For years, banking confidentiality was a key part of the Swiss financial center’s appeal. Today, taxes in most countries are legitimate and no longer confiscatory in nature. As a result, banking confidentiality is increasingly losing its legitimacy. Other states are no longer prepared to accept their citizens evading tax in this way. This paradigm shift occurred unexpectedly quickly and with enormous force. Switzerland was forced on the defensive and has had to ward off attacks from all sides. The first concession was the European savings tax agreement with the EU, the second the assumption of the OECD 26 Standards which provide for administrative assistance, not only in cases of tax fraud, but also where there is a suspicion of tax evasion. This has led to the de facto removal of banking confidentiality for tax evasion purposes.

The current situation is rather complex. Politicians and those in the financial sector are divided over the right strategy to take. The Swiss Federal Council has failed to ease concerns with its Clean Money Strategy Report. It appears that, as a result of our defensive position, we are running the risk of moving too far in the opposite direction and of turning our competitive advantage into a significant competitive disadvantage.

In such a complicated situation, it pays to act according to simple rules. It would strengthen the position of Switzerland and its financial center if banks and the key political players could agree on a few firm principles. I mention seven here which could produce a rational, morally defensible and realistic strategy.

1. Protecting individual privacy is a fundamental tenet of Switzerland's constitution and cannot be abandoned.

2. However, Switzerland ought not to be a financial center for tax evaders. The financial sector cannot become involved in tax crimes.

3. Switzerland may not breach its decades-old obligation of banking data confidentiality. This is why it must not accept a solution which provides no reasonable means of regularizing the past.

4. Switzerland consistently complies with applicable international standards and goes beyond these only in a few justified cases, for instance in dealings with the EU and the US.

5. Switzerland plays a constructive role on international committees concerned with the further development of international standards.

6. Swiss banks must not serve as the extended arm of foreign tax authorities. Clients are themselves responsible for compliance with their tax obligations.

7. The final withholding tax, as agreed with the UK, Germany and Austria, is a workable solution in relation to the EU. However, the automatic exchange of information must be rejected.

Such principles largely speak for themselves. They have a strong foundation in the Federal Council report, yet remove various weaknesses. I have only the following points to add in summary:

Solutions that do not regularize past problems would not only destroy confidence in the rule of law in Switzerland with unforeseeable consequences, even among clients who have handled their tax affairs with complete honesty, but would also create a huge incentive to shift funds to less regulated jurisdictions. This would equally not be in the interest of partner states.

Statutory measures as well as rules of conduct which go beyond international standards impair our international competitiveness. This applies, in particular, to self-declarations. Nobody knows their legal scope and the resulting effects. The relationship vis-à-vis future money laundering standards is also unclear, taking us into new territory with unknown pitfalls. Any additional duties of clarification and control must therefore be coordinated internationally in terms of practical considerations, timeframe and content, with the implementation of the new money laundering standards.

Nobody can ask us to go beyond internationally applicable standards. These standards will, however, be made more stringent. Switzerland, too, is to implement new international rules, under which a "tax crime" becomes a precursor to money laundering and is therefore subject to disclosure obligations. This has the effect of making the OECD standard much more watertight. An effective mechanism against tax evasion will be created, but at an international level. For this reason, the approach is also morally more than acceptable. It will ensure that there is still a level playing field.

Lifting the distinction between tax fraud and tax evasion with respect to the provision of information to tax authorities would mean discriminating between domestic and foreign banking clients. It is doubtful whether this could be maintained in the long term. Yet this in no way means that the distinction would have to be abandoned in criminal law.

I won't comment on the problems with the US, which UBS has now fortunately been able to put behind it. The Secretary of State, with his unenviable task, has plenty of advisors. However, I'd like to mention my support for the final withholding tax. Our relations with the EU internal market are so close that it is justifiable to exceed the international standard when it comes to EU countries - but only with them! Clearly, Switzerland had to make a number of concessions in negotiations with Germany. But the key criteria have been satisfied. It’s also not true that German clients are leaving in droves. They are adopting a wait-and-see approach. Most are looking for a means of legalizing their past behavior without losing face. After all, a life built on the proceeds of tax evasion isn't pleasant in the long term. I'm convinced that only a failure to reach agreement would unnerve clients and result in many moving their assets out of Switzerland. And this must also be obvious to the German opposition. I believe that many clients will immediately choose disclosure and that in time, many others will also do so. For this reason, the agreement on the final withholding tax goes a long way toward meeting the EU’s long-term objectives. What's more, this solution also generates cash. An automatic exchange of information, on the other hand, must clearly be rejected. First, as the Swiss data protection commissioner rightly pointed out recently, it sees every citizen as a potential lawbreaker, a situation that can only be overcome by automatically disclosing details about an individual’s financial situation. This is a blatant contradiction of the Swiss notion of the state. And second, in the EU, the automatic exchange of information was a complete failure in terms of improving its finances.

It is important that Switzerland approves the agreement with Germany quickly, rather than waiting. At the same time, it must make one thing clear: Should Germany now fail to take up Switzerland's offer, the current state of affairs will remain intact. Negotiations on anything that goes further than this are not possible.

V.

The UBS Education Initiative

To mark our anniversary, UBS wishes to underline its commitment to Switzerland by contributing to its reputation as a location for business and education. A country scarce in raw materials such as Switzerland essentially has just one resource on which it can build: its grey matter. Education is therefore a key resource. Should the financial center lose some of its regulatory advantages, professional expertise will become even more important. For this reason, we launched a broadly supported, long-term education initiative a fortnight ago. It has six sub-areas and is geared towards schoolchildren, trainees, university students, academics, entrepreneurs, and people over 50. The flagship project is the UBS International Center of Economics in Society at the University of Zurich. The center conducts leading, independent academic research on the pressing issues in economics and economic policy today. It will propose new solutions and approaches to current issues, for instance on the relationship between finance and the real economy. With up to five chairs, the Institute for Economics at the University of Zurich has the chance to become a global research leader that makes an impact going well beyond our national borders. The UBS International Center will be the catalyst, so to speak, that makes research applicable at a practical level.

VI.

Changing of the guard

A bank is only as good as its staff. Our staff have performed impressively over the last three years, often under difficult circumstances. On behalf of the Board, I would like to thank them for this. With strong management and a skilled team, Oswald Grübel turned this bank around. For this, he deserves our thanks. The loss caused by the unauthorized trading incident hit us all hard, Oswald Grübel in particular. As the bank's Group CEO, he assumed full responsibility and resigned in September 2011 with immediate effect. When a strong personality leaves unexpectedly, a leadership vacuum usually ensues. But we managed to avoid this. The Board of Directors immediately appointed Sergio Ermotti as interim CEO. He proved his worth from the very first day in this difficult, initially interim position. After closely monitoring his work in the "probation period" and after a thorough evaluation of a number of other internal and external candidates, the Board of Directors appointed him CEO. I would like to thank him and his dynamic team for their excellent work in this difficult environment.

I myself have been preparing my succession for over a year since meeting Axel Weber in Zurich and quickly concluding that he is ideally qualified for the office of Chairman of the Board. If he is voted onto the Board today, he and Sergio Ermotti will complete the generational change in the bank's senior management. You will thereby be laying the foundation for a long-term, stable management. I would like to thank my colleagues on the Board of Directors for their tireless commitment and their excellent cooperation with the Group Executive Board, whose members I also wish to thank. It has been a privilege to have been able, under difficult circumstances, to work together with an outstanding team to help rebuild a great firm.