UBS

Annual General Meeting of UBS AG on 2 May 2013

Speech by Axel A. Weber, Chairman of the Board of Directors of UBS AG

Check against delivery.

Dear shareholders,

I am happy to have the privilege of addressing you again today as the Chairman of the Board of Directors of UBS. 2012 was an eventful year, and not without its setbacks and disappointments. However, it was a successful year overall that saw us achieve further key milestones in realigning our bank.

I'd like to start my speech by looking back at the priorities the Board of Directors set itself last May.

1. We planned to further strengthen our bank's positioning in the challenging environment. To this end, we reviewed our strategy and adjusted it to the new market realities and the regulatory landscape, bearing in mind the traditional strengths of UBS.
2. It was and remains crucial for us to win back lost trust, as this is the only way we can guarantee a successful future for our bank. We therefore made it a priority to systematically address the issues of the past and remedy any errors.
3. Finally, when I took up office, I announced that I wished to intensify the dialogue with our shareholders and consistently implement the findings of such discussions. We did this last year in more than 100 meetings with shareholder representatives.

We have made considerable progress in the last 12 months in all these areas and in many others as well.

2012 was once again a challenging year for banks in Switzerland and worldwide. The weak and volatile macroeconomic environment dampened client confidence, while regulatory requirements remained strict.

Fragile macroeconomic environment

Although the equity markets recovered during the course of the year on the back of various central bank measures, the macroeconomic environment in Europe deteriorated, in particular in the second half of 2012. A key reason for this was the fact that the unresolved government debt and banking crisis in the peripheral European countries spread to core eurozone states such as France.

The situation was exacerbated by crucial budget consolidation in many European countries and lower consumer spending, which resulted in an economic slowdown throughout the eurozone. At the same time, the macroeconomic climate and stricter regulatory requirements prompted banks to drive forward their debt reduction programs at a faster rate, further denting economic growth.

Our domestic market – Switzerland – was also hit by the tightly-woven web of recessive trends in the eurozone. As a result, economic growth fell from 2% to 1% for 2012 overall.

In the US, the economy was sluggish, although some sectors showed signs of recovery in the second half of the year. In addition to the impact of ongoing debt reduction on the economy, consumer and investor confidence in the US was also hit by uncertainties surrounding fiscal policy.

The emerging markets offered some growth momentum in 2012, but this was weaker than earlier upswings, especially in China. This was due to the negative repercussions of the recession in Europe and the halting recovery in the US economy, among other factors.

We expect the world economy to grow slightly this year to 3%, compared with 2.7% in 2012. It is possible that 2013 will prove to be the start of the post-crisis era. Nonetheless, the operating environment for banks continues to be marked by the fragile economic environment. For example, recent events in Cyprus have clearly shown that the crisis in the eurozone is by no means over yet.

In addition to these macroeconomic challenges, we had to adapt our business model to the new regulatory situation.

New regulatory situation

Regulators worldwide agree that many global banks are too large, have too much risk on their balance sheets and have become too complex. We needed to face up to this situation as well and adjust our business model accordingly.

UBS accepts the tighter regulatory requirements and we are in favor of regulations that improve confidence in the financial sector, increase client protection, and provide better protection for shareholders and taxpayers.

I make every effort to ensure that new regulations are implemented effectively within UBS. UBS is at the forefront of implementing new regulatory requirements in many areas, both in Switzerland and worldwide. For example, we began implementing regulatory provisions in the area of capital and liquidity standards at an early date and we were the first major institution to base our strategy systematically on the changed regulatory environment.

On the other hand, I object to regulatory trends that lead to market distortions and hinder market entry, as they make for unfair competition in the international market.

Such trends need to be considered when defining the strategy for the Swiss financial center so that Switzerland can remain competitive.

We need to be aware that Switzerland is facing competition from other financial centers worldwide. Our country's excellent positioning, above all in the wealth management business, is being overshadowed by pressure for tax compliance and the threat of being blacklisted.

To guarantee and strengthen the competitiveness of the financial center, Swiss banks need to play a part in systematically implementing tax compliance measures. As the Chairman of the Board of Directors of UBS, I strongly favor a "clean money approach".

Accelerated implementation of our strategy

I am convinced that UBS has the right strategy to be extremely successful, even in this difficult environment.

However, these challenges – the fragile macroeconomic climate, barriers to market entry, a tightened regulatory environment, and the demand for more transparency in various areas, including tax issues – will change the banking sector in the coming years in a lasting manner.

Against this backdrop, the Group Executive Board recommended accelerating the implementation of our strategy, and last fall the Board of Directors approved this recommendation.

The Board of Directors and Group Executive Board consider this acceleration to be essential to curtail residual risks and to meet our shareholders' justified expectations of attractive, sustainable returns.

We thus underlined our determination to drive forward the transformation process and create the UBS of the future.

Six months have passed since we announced the accelerated implementation of our strategy, and in that time we have made considerable progress.

As well as having the right strategic focus, our bank also needs to win back lost trust in order to ensure its future success. In my opinion, the only way to achieve this is to systematically resolve the issues of the past.

Systematically resolving the issues of the past

The year 2012 was marked by endeavors to resolve the issues of the past. To a certain extent, this overshadowed the considerable progress that we have made in implementing our strategy and the good results posted by many of our business divisions.

One of the most significant issues that we addressed last year was the LIBOR case. We reached a settlement with various supervisory authorities amounting to around CHF 1.4 billion in December.

My colleagues on the Board of Directors and I considered it important to find a solution and reach a settlement with major authorities so that we could devote as much attention as possible to realigning our bank.

We deeply regret the fact that certain people within UBS were involved in manipulating LIBOR rates. Such misconduct is totally inacceptable. It is also completely at odds with the values of UBS or with the high ethical standards that we require each individual employee to observe.

We thus took appropriate action with respect to employees who have behaved incorrectly or neglected their supervisory duties. In less serious cases, we either did not pay bonuses or forfeited deferred compensation, and in the case of serious misconduct, we dismissed the employees in question, irrespective of their rank.

In the course of our comprehensive investigations, we also reviewed the conduct and responsibility of the Board of Directors and Group Executive Board in office at that time. An internationally renowned law firm assisted us in these reviews.

The first independent investigation clearly showed that neither the Board of Directors nor the Group Executive Board was involved in or aware of these incidents. A further examination by a second independent law firm to determine whether the Group Executive Board or the Board of Directors had breached their duties confirmed that both the Board of Directors and the Group Executive Board had fulfilled their supervisory duties.

Nevertheless, the review uncovered flaws in UBS's risk management – flaws that played a part in masking the misconduct by certain employees. We have systematically eliminated these deficiencies in our risk and control processes in order to ensure that our high standards are maintained.

The positive reaction and recognition we received from the authorities confirm that we made the right decisions in carrying out our changes.

I'd like to make very clear that my colleagues on the Board of Directors and I have absolutely no tolerance for inappropriate, unethical employee conduct. Our credibility is crucial. We will therefore continue to focus on how we can further improve our firm's operating practices, culture and risk awareness.

Before I finish, I'd like to come back to the changes we have set in motion in response to the feedback we have received from you, our shareholders.

We've learned many important things from the detailed discussions we've had with you over the past 12 months, and have taken various steps to put these findings into practice.

I'd like to talk about three issues that I regard as particularly important.

The compensation model

One of the main topics was the compensation model, to which we made considerable changes over the course of the 2012 financial year.

I am aware that compensation – particularly as regards the remuneration of top management – is an extremely tricky issue, and one that needs to be handled with a great sense of responsibility.

My fellow Board members and I take the view that we have succeeded, with the new compensation model, in putting together a sound compromise between the justified expectations of our various stakeholder groups.

We have tied compensation more strongly to the long-term performance of our firm, streamlined the compensation structure, and increased transparency on the issue.

At the same time, the new model also ensures that good performance and strong dedication pay off for employees. The latter is something I regard as being especially important under the present circumstances, as the comprehensive transformation of our bank demands a high level of dedication from our employees.

Without this sort of dedication, we will be unable to continue making headway in implementing our strategy. It will enable us to ensure that UBS can function even more successfully in the new environment, which is also in our shareholders' best interests.

To highlight the greater focus on our company's medium- to longer-term performance, we have decided not to include a cash element in the performance-related awards to members of the Group Executive Board for 2012. These will not be paid out for another five years, and until then there is the risk of them not being paid out at all if our bank fails to meet its performance targets.

Furthermore, we have introduced a cap on the performance-related component of the Group Executive Board's compensation so that the pool available can be no more than 2.5% of the adjusted pre-tax profit. In 2012, the pool actually stood at 1.7% of that amount.

Many external observers regard our model as being exemplary, and rating agency Moody's has described it as having a positive effect on our credit profile. I do realize, though, that we are not likely ever to come up with a perfect solution that all stakeholders will always perceive as the right one. But I am confident that we are striking the right balance between meeting the interests of our employees and ensuring a proper return for our shareholders.

Changes to corporate governance

Another area in which we have made changes is corporate governance.

One of the things we did on this front last year was to have a "Board Assessment" carried out by an independent external consultant, to ensure that the Board of Directors can discharge its supervisory obligations in the best possible way and that it is cooperating effectively with the Group Executive Board.

This outcome of this assessment was generally positive result and confirmed that, in this respect too, we are on the right track. Despite its generally positive tone, the study does also spur us on to further step up our efforts. We will use the insights gained from it to further optimize the way we work.

Beyond this, we have also introduced a number of innovations that enable you, our shareholders, to exercise your rights more easily and effectively.

One of them is our new online shareholder portal, which we launched at the end of March. This portal modernizes our corporate governance by enabling shareholders to issue their proxy voting instructions for a forthcoming General Meeting online. I take pride in the fact that UBS is the first company in Switzerland to offer such a service to its shareholders.

Increased dividends

Finally, we have adopted a dividend policy that ensures that shareholders get a fair share of UBS's profits.

I am well aware that you, our shareholders, have suffered a lot during the crisis, and are entitled to a fair share in our profits.

That's why we announced, in fall 2012, that we would be aiming to progressively return capital to our shareholders.

This includes an increase in dividends. At the same time, we will be working to achieve our capital targets and to have a dividend payout ratio of over 50% once we have done so.

In view of our successes over the course of 2012, particularly as regards our capital position, and as a sign of our confidence in our ability to continue to implement our strategy in a disciplined manner in the future, our recommendation for 2012 is that the dividend paid out to our shareholders be increased from CHF 0.10 to CHF 0.15 per share.

Looking back over the past 12 months, we have made significant progress in many important areas. UBS is now stronger and better-positioned than many of our competitors, and my view of the future is an optimistic one.

So why am I optimistic? Firstly, because of our outstanding employees, who, through their ongoing hard work, have played their part in enabling us to reach the most important milestones in the implementation of our strategy. I want to take this opportunity to say a very big thank you to them.

I also want to thank the Group Executive Board, and above all our CEO Sergio Ermotti, for working so well with us and for executing our strategy so successfully

I also wish to thank our clients for the trust that they've placed in us. Let me assure you that we won't allow ourselves to be diverted from our course and that we will continue to work unstintingly to safeguard your interests.

Particular thanks are due to you, our shareholders, for your commitment and loyalty to the Bank. We will continue to engage in dialog with you and remain committed to acting on the insights that emerge from our discussions.

I would now like to hand over to our CEO, Sergio Ermotti.