

Annual General Meeting of UBS AG on 7 May 2014

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

Check against delivery.

Ladies and Gentlemen,
Dear Shareholders,

Welcome to Basel.

I'd like to start off with some good news: 2013 was a good year for UBS. No doubt about it, we're on the right track, and the bank's future looks even brighter.

We at UBS achieved some important goals last year.

- We have the best common equity tier 1 capital ratio of our peers globally.
- We have regained trust.
- We have posted solid results.

And we have more ambitious goals for the years ahead:

- First, we want to strengthen our already solid capital base, and we want to continue to push ahead with our corporate restructuring and bring it to a successful conclusion.
- In addition, we want to return at least 50 percent of profits to shareholders.
- And we want to ensure that we have a sustainable and ethical corporate culture.

Let's take a look at 2013.

Last year, as I mentioned, was a good year:

- Our Basel III fully applied CET1 ratio rose by three percentage points, or about one third. At the end of the year, it was just under our target of 13 percent. At the end of March 2014, it surpassed this target. Based on this figure, we are the best-capitalized bank in our peer group.
- The renewed trust in the bank can be seen in the 54 billion francs in net new money our wealth management businesses attracted last year. Our wealth management segment had the largest inflow of new money in five years.
- Net profit attributable to UBS shareholders of 3.2 billion francs is evidence of this good performance.

These solid results did not come about by chance. Each of the bank's business divisions was profitable in every quarter. In 2013, we were once again the world's largest wealth manager. Our net new money grew faster than our three largest European competitors combined. The sharp rise in our share price also reflects the restored confidence in the bank.

In short, our strategy is working. And you, our shareholders will also benefit from this. In future, if all relevant requirements are met, at least 50 percent of profits will go to you. That is, of course, good news for you. And it is a benchmark by which you can measure us.

Group CEO Sergio Ermotti will take you through the 2013 results in detail later, and he will highlight in particular the areas in which business went well and the reasons for that.

In my work last year, I focused on three major areas:

- First, on in-depth dialog with a very wide range of shareholders from around the world.
- Second, on dialog with regulators worldwide.
- And third, on the further development of the bank, which often requires intensive discussions with the leaders of politics and society.

After all, UBS is involved in the triangle of activities formed by business, politics and society. Each of these three elements is, in itself, highly dynamic. There is, for example, the recent vote against mass immigration in Switzerland, or the European debt crisis.

Regarding point 1: In my discussions with major shareholders, I noticed that there was plenty of support for the bank's direction. We can build on this trust going forward. We are acting from a position of strength today, in an environment that is undergoing constant change.

Let's look at the economic environment. Generally speaking, the global economy and the financial markets are in better shape than they were one year ago. Inflation is low around the world, and is likely to stay that way for now. Interest rates are also low, and many stock market indices are climbing to record highs. The United States, for example, is currently in a self-sustaining recovery. The US Federal Reserve is tapering its monetary policy, and may soon start applying the brakes. I believe the situation in Europe is less positive than elsewhere. Europe is still facing some significant risks, such as the still unresolved debt problem. In addition, elections for the European Parliament are coming soon. The results of these elections could strengthen the centrifugal forces in Europe. The outcome of the bank stress tests could also affect the markets, especially in Europe's peripheral countries.

In addition to the economic ups and downs, the emerging markets are undergoing a period of uncertainty. In short, the recovery is still fragile and not equally strong everywhere. It is good to see that Switzerland remains a rock of stability in this challenging environment. Growth is robust, inflation and unemployment are low, and government debt is also low compared with other countries. But Switzerland is also experiencing a two-track economy: domestically, and especially in the construction industry, things are going very well, while the export industry continues to struggle as a result of the strong Swiss franc. I am optimistic, though, that this year will be positive for the Swiss manufacturing industry.

Let's turn now to the political environment. Voter approval of the initiative against mass immigration caused some concerns at the bank and among our clients and among you, our shareholders. It would be good if the conditions to be applied in this area in future were made clear as soon as possible. I have no doubt that the quintessential Swiss quality of foresight will be useful in finding a solution that is acceptable to all members of society.

My second main task was the ongoing contact I had with regulators. Around the world, regulators are requiring banks to be more transparent, resilient and more simply structured. We fully support these efforts. They can help to make the financial sector more stable, and that is in the interests of clients, shareholders and taxpayers. We have been proactive in our response; as already mentioned, we have fulfilled our capital and liquidity requirements early, and we have the best CET1 ratio of our peers globally.

As the chairman of the UBS Board of Directors, I also supported the efforts to create a global standard for the exchange of information. I'm certain that such a standard will strengthen the competitiveness of the Swiss financial center – if it can be guaranteed that such a standard receives international agreement and acceptance and that it can be applied consistently. I do worry about the speed at which some regulators already want to modify reforms to bank regulations that have only recently been introduced. They want to do this before the reforms have had a chance to make an impact.

We in Switzerland, along with banks in the English-speaking world, are leaders when it comes to implementing capital and liquidity requirements, as well as with respect to recovery and resolution planning – the “too big to fail” issue, in other words. This also means that the legal structures of the Bank must be modified. We have already announced our intention to establish a separate Swiss subsidiary for the private and corporate clients business and for the Swiss-booked wealth management business.

We also announced yesterday the decision to establish a Group holding company in order to better meet the new regulatory requirements. Our exchange of ideas with regulators also looked closely at how we can tackle irregularities in our business activities. As chairman of the Board of Directors, I have worked hard on resolving issues from the past – sometimes too hard, I think – and I will continue to do so. Even so, resolving these issues from the past is a top priority for me. We are looking closely at every part of the bank, and will take decisive action at once if we find any misconduct. This is fully in line with what I believe proper business management is all about. It has to be honest. It has to be fair. And it must keep in mind the long-term interests of clients and shareholders, rather than simply chasing short-term gains.

We want a strong corporate culture. Let me reiterate that we will not tolerate any illicit machinations. If mistakes are made, they must be dealt with consistently and corrected. We have no interest in trying to hide wrongdoing. On the contrary, the best action to take from the long-term perspective is to bring it to light and clean it up quickly. Our predecessors in the bank were able to find a solution early on in the tax discussion with the United States. In addition, it is our stated goal that by the end of this year all our clients in cross-border business with our major European neighbors will be fully tax-compliant. We were also able to resolve the Libor issue quickly and decisively in cooperation with regulators. We have the same proactive attitude for the procedure that is currently underway.

I fully believe that upright conduct is the only path to success over the long term.

I would now like to address the third point, which is the development of the bank going forward. The basis for this is that our various business areas are operating successfully. They are the proof that our strategy is the right one.

The strength of our business means that we can propose today that the dividend be raised to 25 rappen per share, which is 10 rappen more than last year. Our aim is to continue raising the dividend substantially. As I mentioned earlier, you, our shareholders are to receive at least half of the bank's profits – as long as the relevant requirements are met.

One of the main tasks for the bank has to do with compensation within the bank. What is fair compensation today in a globally active major Swiss bank? We on the Board of Directors looked very carefully at this question in 2013, and we decided on some comprehensive changes. We want to find the right balance. On the one hand, the right balance between reasonable financial incentives and compensation for employees that is in line with the markets, and on the other hand, the long-term profitability of the bank and value for shareholders. In other words: The incentives must be set in such a way that employees and management increase the value of the company over the long term. And there must not be any incentives for employees or management to maximize their personal gain in the short run.

We do this using a sophisticated system of finely balanced performance targets. There is more to this system than just meeting the targets right now. There must be clear evidence of long-term performance. This means specifically for 2013 that for the Group Executive Board on average 84 percent of the performance-based compensation is deferred. This deferred compensation will be paid in stages over the next three to five years. Some of this compensation will not be paid if, for example, the CET1 ratio falls below 10 percent or some business areas post a loss.

We have made it clear and transparent what these financial and qualitative criteria are and how we weight and assess them. In addition, we have linked more than 50 percent of this compensation to the share price. About half of UBS's employees are themselves UBS shareholders. In this way, the interests of employees are converging more and more with the interests of shareholders. We also introduced some caps, which we previously did not have. This also applies to me, and my compensation, which consists for the most part of UBS shares, has also been capped, at my request, by the committee in charge.

I would like to make one point very clear. We will not return in any way, shape or form to the compensation system we had before the financial crisis. But that is only one aspect of this issue. We in the Board of Directors and you as owners of the bank want the business to be well run, with strong earnings. To do this, we need professionals at all levels – the best in the business. After all – and allow me to use a sports analogy that fits in well here in Basel – UBS plays in the Champions League of banks.

We should not forget that decisions made by the Executive Board affect the future of tens of thousands of employees, impact millions of client accounts and influence the value of the assets you have invested in UBS shares. The bank's senior management therefore bears a major responsibility. We can be proud that we have Sergio Ermotti, a Swiss national who, thanks to many years of experience internationally, is well equipped to lead the bank. If you want to have the best possible people in business, you also have to compensate them in line with the market. That's how it works in sports and in industry, including the financial sector. I believe that our compensation model is developing in the right direction. In the future, you will also have a direct say on this issue. We have already begun implementing a part of the Minder initiative at this Annual General Meeting. The rest will be implemented next year, after we have amended the articles of association.

This means that in 2015 we will conduct binding votes on compensation. We propose that the vote on the compensation of the Board of Directors and the fixed compensation of the Executive Board should take place in advance. You, our shareholders, should be able to vote on the variable compensation for the Executive Board on the basis of the results of the financial year just ended. We have made a conscious decision not to approve the alternative model of a lump-sum compensation package in the future. It is up to you to judge whether you believe the variable compensation is justified based on the business results.

Turning now from compensation to something else, we should not forget, in all these discussions, that there are some higher goals that are important for me and which everyone in the bank should be aware of.

- In future, we must ensure that we have internalized the principles and code of conduct for good business practice.
- We must ensure that we maintain an excellent team spirit.
- And we must ensure we have a balanced number of women and men working for us, and that we have people from all parts of the world.

In short, we want to be a bank that operates on a sustainable basis.

Not only are we at UBS looking for sustainability, but our clients are looking for it too. For example, one quarter of the assets that we manage are invested on the basis of sustainable and social criteria, and that figure is likely to rise. That's why we offer in-depth reports, advisory services and products in the area of sustainable investments:

- We conduct worldwide portfolio checks on the basis of social and environmental criteria.
- We offer sustainable investment funds.
- And we are building a platform for philanthropy.

The world is changing, and we're changing with it. This also holds true with the increasing digitalization of the world. We need to be where our clients are: on the internet. That's why we've expanded our online banking services. Today, our clients can take care of their banking business directly from almost anywhere via their computer or mobile device. This offers greater independence and speed, and at the same time closer proximity to clients. This is another field in which UBS is a leader.

The redesign of our branches in Switzerland is another example of how UBS is focusing directly on customers. The way in which clients are welcomed, served and advised has been improved and enhanced, and they are now even more the center of attention than before. We have over 300 branches, and more than 90 percent of them have been renovated. I believe that UBS is headed in the right direction.

- We have the right strategy.
- We are focusing on our global wealth management business and on our leading universal bank here in Switzerland.
- These core businesses are driving growth for the entire Group, supported by our client-focused Investment Bank and our well-diversified Global Asset Management business.
- As we have seen in 2013, we have an integrated business model that works well.

We have a Board of Directors that is supporting this strategy. We have an Executive Board that implements this strategy and drives it forward. And we have you, our shareholders, and the important support you give to our work.

I would like to take this opportunity to thank you, our shareholders, for your patience and your confidence in the Board of Directors and the Executive Board.

I would like to thank our clients, who demonstrate their trust in our bank every day by placing their assets with us, conducting their banking business with us and relying on our specialists' expertise.

I'd like to thank all the bank's employees for their hard work, and for the great loyalty that many of them have shown to "their" bank over the years.

It's my pleasure likewise to thank our Executive Board, which, under Sergio Ermotti, has shown that it is possible to run a bank successfully even under conditions that are very different to what they were a few years ago.

UBS is a Swiss bank. We want to continue to be involved in Swiss business and society and to work to help keep the country competitive. We do this in many different ways. Our CEO will have a lot to tell you about them later.

I would like to end my address with a personal observation about Switzerland. I have been living and working here now for two years. During this time, I have learned not only to appreciate what a beautiful country it is. I have also learned how committed people are, to their company and also to their society. Switzerland has many admirable qualities and that's why it can act as a model for many other countries. Prosperity, though, comes through hard work. It's not something that we can take for granted. We must continue to give our best to ensure our standard of living.

I can promise you that we at UBS will do everything we can to ensure the bank, its clients, its employees and its shareholders – and the people of Switzerland in general – continue to prosper.

Ladies and gentlemen, thank you for your attention.

Language versions | This document was produced for the convenience of our English-speaking investors and various other stakeholders. The German version takes precedence in questions of comprehension as it serves as the official document.