Annual General Meeting of 23 April 2008

Speech by Marcel Rohner, CEO, at the Annual General Meeting of Shareholders of UBS AG in Basel on 23 April 2008

Check against delivery.

As CEO, it is my duty to present and comment on last year's results to you, our valued shareholders. But a loss of 4 billion Swiss francs speaks for itself. It is a disastrous result, and it has eroded a great deal of trust.

That is why I would like to take some time today to explain how it happened and the steps we have already taken. Finally, I would like to outline what we plan to do over the short and long term to ensure that something like this never happens again, as well as explain how we want to win back your trust.

Two days ago, we published an account of the facts along with a description of the causes in the summary of the report provided to the Swiss Federal Banking Commission. This report reveals in painfully clear detail what happened and where both we and our systems failed. It does not make for pleasant reading, but it does reflect reality. The only way for us to look ahead and move on is to learn from all these facts and findings, to accept them, and to draw the necessary insights and measures for the future.

I do not plan to summarize the report again in my speech. The report is comprehensive and detailed enough to allow you to draw your own conclusions. Instead, I would like to provide you with my own description and assessment of the key factors which led to this result.

What were our primary mistakes?

1. We could not see the forest for the trees.

Most of our colleagues reviewed transactions, hedged risks, refined models and performed analyses with the best intentions. We use laborious, comprehensive control processes to review and analyze new transactions. We have had and continue to have armies of highly trained traders and controllers who evaluate transactions on an ongoing basis and model them in numerous dimensions.

I believe that we relied both consciously and implicitly on all these processes and capabilities and that we therefore no longer asked the basic questions. As painful – if not embarrassing – as this realization may be, the conclusion it suggests is all the more important. The problem was not a failure to appreciate complexity, but rather the opposite – it was a lack of simplicity and critical perspective which prevented the right questions from being asked while there was still time.

2. We cross-subsidized certain businesses.

Over the last 15 years, our bank has grown through a combination of acquisitions and organic growth. We always saw it as one complete entity. By continually expanding existing units, we gradually grew our international business. And based on our organizational structure of first four and then three business units, we often said that we were not a holding company but rather a single integrated bank.

Yet it was this very focus on unity which created another problem. The whole can only function when all of its parts function. And the parts can only function if they are able to flourish on their own, without any outside help, under the same conditions as the competition.

In essence, one of the main causes of the problem seems paradoxical. We did not question the integrated model enough. We used the strength of our balance sheet and compelling financing options for activities which should have been more expensive to finance based on their risk. We used our surplus cash flow from the wealth management business to promote organic growth in the Investment Bank. That was where we went wrong.

Logically speaking, expensive cash and scarce capital should enforce the discipline needed when engaging in high-risk activities and deciding which activities scarce resources will be allocated to. Scarcity forces us to select only those transactions which have the best risk-return profile. And this scarcity of resources is critical to successful investment banking.

3. We tried to generate growth by copying the strategy and processes of the competition instead of relying on our own inner strengths and identity.

Comparison with the competition is both important and indispensable. But if it leads to a me-too strategy this can be dangerous in a high-risk, resource-intensive business

In the fixed income business, we had been losing ground steadily against the competition since 2002. However, it was wrong to try to minimize this growing gulf on the basis of product imagery alone. We were too hasty in our strategy and concentrated too heavily on filling in the gaps in our range of products.

There is tremendous pressure to deliver earnings growth. But in our case, the response to that pressure must be to increase sustainable earnings. Sustainable earnings are based on client value. Anything else only promotes short-term growth. One of the responsibilities of leading a company is to resist exactly this sort of temptation, and not to give in to the pressure to deliver short-term earnings at the expense of sustainable growth.

Based on these lessons learned, we have already initiated a number of immediate steps.

The first thing we have started to do is reduce our risk. Today our problem positions are only about a third of what they were at the end of September 2007. But we still have risk exposure, and the remaining portfolios are still subject to fluctuations. Meanwhile, valuations are at a very low level – in some cases below the intrinsic value of the security. Also, trading has started up again at the current level, buyers are making their presence felt and specialized investors are finding favorable ground-floor opportunities. This at least is an improvement on the situation of the last few months.

For the short term, the focus of risk control will be squarely on risk reduction. In addition, we have already started making some necessary corrections in risk measurement and risk reporting.

Secondly we have started to reduce our balance sheet. This reduction is necessary both to eliminate cross-subsidization and to achieve a sustainable structure for our liabilities.

The third step has been to move toward considerably simplifying and reducing our fixed income business. We have identified areas where we no longer want to operate and have transferred the respective risk positions to a separate unit. This step gives us the option of allowing outside investors to take a share in our risk or even spinning off those operations. It also provides us with additional flexibility in finding a solution to our problems.

The fourth step is to bring the costs of the Investment Bank into line with our new positioning and prevailing market conditions. We will provide more detail on all these measures at the beginning of May.

What is the mid-term and the long-term outlook?

1. Our decision-making authority and processes have to become clearer and less complex.

With its decision to eliminate the Chairman's Office and ensure a clearer division of responsibilities between the Group Executive Board and the Board of Directors, the latter has already taken a first step in this direction.

In general, the emphasis in risk control is on simplifying decision-making processes and defining responsibilities more clearly. We will have fewer processes and clearer areas of authority. Based on the new structure of the Board of Directors, we will make the necessary changes in the second quarter.

2. Our strategic positioning is based on current business areas.

Our future will build on everything that functioned not only well, but *extremely* well.

Our Swiss business is the foundation for everything else. It provides earnings that are not just stable, but growing, and it operates alongside the Swiss wealth management business on a uniform platform and infrastructure.

Our global wealth management business is the backbone of our activities. Last year it turned in an absolute record performance. We will continue to invest in hiring new advisors and in continuing to gain market share worldwide. There is hardly any global wealth management business that can compare to ours. The scale of our activities in this area sets us apart from all of our competitors.

Both in Switzerland and internationally, we will now make tireless efforts in winning back the lost trust of our clients.

3. But what do we hope to achieve in investment banking?

Until now we have always talked about investment banking in a general way, but that characterization is too broad.

Our investment banking activities primarily concern trading and capital market transactions with institutional clients, which include institutional asset managers such as fund managers, pension funds, insurance companies and hedge funds. But we also partner with other banks. Finally, we operate our wealth management business within UBS with intermediaries of other wealthy private clients such as external asset managers and private banks. Most of these activities have a compelling risk-return ratio.

The only thing that really counts is creating sustainable earnings growth, meaning earnings from client business. However, client business that comes at the cost of substantial balance sheet and capital resources is not sustainable client business, in the same way that proprietary trading with high concentration risk and illiquid positions is not sustainable.

We no longer aim to offer everything to everyone in investment banking. We aim to achieve the highest client-driven growth. But to do that, we do not need an oversized balance sheet. We do not need an oversized inventory of trading portfolios. And we do not need an unnecessary concentration of risk. Most parts of the investment bank did operate successfully and proved that exactly those things are possible.

4. But how can we be sure that we will not lose our way again in the future?

In the past we neglected to define firm objectives and metrics for every business area that puts the emphasis on creating shareholder value.

For the Investment Bank, in concrete terms that means that free cash flow should generate an appropriate return in relation to invested capital. That may sound somewhat technical, but practically speaking it means that the capital required by the Investment Bank for future growth must be generated under its own steam. Surpluses from the wealth management business will be returned to shareholders through dividends or share buy-backs.

We have already introduced an improved procedure for capital allocation – in other words, distributing the necessary internal funds to individual business areas – which uses risks, risk-weighted assets and also the size of the balance sheet as criteria. This allocation is the basis for a financially meaningful and rigorous measurement of the value added by individual businesses.

5. Do we want to hold on to our positioning – that is, the current business areas – forever?

Before we can assess the future growth of the various areas of the financial services business, we need to estimate the market potential, economic growth, growth in worldwide assets and growth rates of institutional business that are derived from that.

Our chosen areas of business and activities – meaning our strategic positioning – will achieve the highest growth in sustainable earnings, according to our estimates. These areas also create synergies. Many wealthy clients want the products and services of the Investment Bank. For its part, the Investment Bank conducts transactions for wealth management and is a key provider of structured products.

However, achieving sustainable earnings and synergies means that we need to effectively implement and continually adhere to the principles of leadership as I have described them. The new strategy committee of the Board of Directors will continually monitor this implementation and thereby ensure that shareholder value is created.

Valued shareholders

We know which mistakes we made. The far-reaching consequences of our misjudgment have already taken hold, and we cannot turn back the clock. But we have embarked on measures to correct our errors and avoid them in the future. We have 80,000 motivated and dedicated employees who have fought hard for each and every client and given their all for their company. And with your help, dear shareholders, we can stand strong again.

I ask you to give us a chance to win back the trust we have lost.

Thank you for your attention.