

Extraordinary General Meeting of October 2, 2008

Report of Peter Kurer, Chairman of the Board of Directors of UBS AG

Check against delivery.

Dear Shareholders, Ladies and Gentlemen,

I want to welcome all of you to this extraordinary General Meeting. Our main agenda point will be the election of four new members to our Board of Directors. Before introducing the candidates and proceeding to the election, I would like to take the opportunity to update you on what we, the Board of Directors and the Executive Management, have done in the last five months to address the many issues which our company faces. You all have learned about these matters from our shareholder letter and from a number of shareholder reports and media releases which we published in the last few months.

Before I summarize them again and then address the next steps, I'd like to briefly address our current situation and the extraordinary market events over the last two weeks.

We all have witnessed the historic events of the last 20 days. Well-established financial institutions have been swept away by events which mark the most severe crisis faced by the industry for many decades. The Wall Street Investment Bank model was completely altered within a week. Massive interventions by governments around the globe were necessary to prevent the worst from happening to the economy, and many institutions had to resort to fresh recapitalization. I am happy to report that UBS has fared reasonably well through this turmoil of the last weeks. Neutral observers attribute this to the fact that we addressed many of the root causes of this crisis soon enough, through an early recapitalization of the bank and a far-reaching recalibration of our business model.

The House of Representatives in the US voted on Monday to reject a \$700 billion rescue of the financial industry. Given the latest developments this will not in all likelihood be the final outcome of this process. We continue to monitor events closely. Independent of the final result, we can continue to reassure our clients and shareholders that we are one of the best capitalized firms with a globally diversified funding base. Despite difficult market conditions, we have made substantial progress over recent months and have laid a foundation on which we can build to maintain this position.

Now, looking back

On April 23, you elected me Chairman of the Board of Directors of UBS. In my speech at that time, I mentioned several actions we wanted to undertake to restore the credibility and the position of our Bank. In particular,

- A clear separation of the Board of Director's tasks from the day-to-day operational responsibilities of the CEO and the management of the Bank, as well as the abolition of the Chairman's Office
- The creation at Board level of a Strategy Committee and a Risk Committee, and the redefinition of the mission of several other committees
- The launch of a thorough review of the Bank's strategy
- The commitment to reinforce the financial, banking and risk expertise of the Board, by bringing in new members when the opportunity arises
- The commitment to undertake all required actions to protect our assets and our client franchise and to reinforce values and culture
- A thorough review of our compensation systems and our succession planning.

Today, I am pleased to report that we have made significant progress in all these areas.

The Office of the Chairman has been dissolved and its duties and responsibilities are now allocated to a greater number of Board Committees including a new Risk Committee and a new Strategy Committee. The remits of the Governance and Nominating Committee and the Human Resources and Compensation Committee have been expanded. The new committees have been put in place and are fully operational. We also established the position of a Senior Independent Director and appointed to it Sergio Marchionne, who also will continue to be the Bank's non-Executive Vice Chairman. Clear role profiles and expectations have been defined for the position of Chairman, Vice Chairman, Senior Independent Director and Board Members as well as for the Board Committees. The changes are based on a thorough review of international best practices in corporate governance and have established a model of clarity and accountability in the governance of the Bank.

On July 1, we announced that four members of the Board of Directors have tendered their resignation: Stephan Haeringer, Rolf Meyer, Peter Spuhler and Larry Weinbach. We then, on August 12, announced four new candidates for the Board of Directors: Sally Bott, Rainer-Marc Frey, Bruno Gehrig and William Parrett. We will present the candidates to you in more detail at the election agenda point. Here, let me briefly explain how we have conducted the decision-making and nomination process. The Governance and Nominating Committee first decided to identify candidates in four different areas: audit, risk

management, banking, and HR and change expertise. We then, out of an impressive pool of candidates, selected a list of 16 candidates, proposing four for each of these baskets. We thoroughly reviewed the background and profiles of these candidates and then selected two to three shortlist candidates for each of the profiles. On the basis of this, we proceeded to interview all persons on the shortlist and then made a final decision which led to the proposal in front of you today. I am convinced that we put a very solid group of people up for election today. In doing so, we will have renewed six of the 12 Board positions in 2008, and we have a good and professional mix of experience and fresh perspectives with which to embark on a journey to create a new UBS.

On August 12, besides publishing our second-quarter results, we also communicated a strategic repositioning of the Bank to allow maximum strategic flexibility in its future development. This was the result of intensive discussions following a complete review of our past strategy, performed since early May by our new Strategy Committee and the Board of Directors. It was a thorough process that involved internal and external input, and was based on careful reflection about the current status and long term potential of each of our businesses. Allow me to state again the main elements of our new strategy:

- UBS will separate its business divisions into three autonomous units and vest them with increased operational authority and accountability.
- UBS will directly relate incentives for management and staff of each autonomous business division with its financial results. This will promote profit generation and value creation within an appropriate and rigorous risk framework that fully recognizes the risk/reward profile of different activities.
- Cross-divisional collaboration will be promoted and driven in the interest of our clients and to yield the maximum possible revenue generation for the company, within a clear framework of servicing, revenue sharing and referral arrangements at market terms.
- The new structure will result in more transparency on the sources of value creation within UBS and impose strict standards on the availability and usage of capital and will remove all cross subsidization between the businesses. It rewards management for sustainable value creation.
- The UBS brand will continue to be used by all its divisions.

We also announced that we would change the management model for the Bank, and create within the Group Executive Board an Executive Committee. The Executive Committee will decide on the best resource allocation for the Group and will set and monitor the performance targets for each of the three Business Groups, including risk parameters, capital allocation and funding terms.

Lastly, we announced the launch of a Change Program, with several work streams, under the Leadership of Marcel Rohner and the support of a dedicated Program Office. The Change Program has already been formally launched and will become the key device to transform the Bank in accord with its new strategy. Beyond the prior streams of implementation, the change program should foster a general attitude of transformation within the Bank, energize our people and attract new talent to the firm. We expect the program to be completed by the end of 2009 with major parts being finished earlier. The Board will closely supervise the implementation of the program.

With these announcements we stepped away from what we called the integrated business model. Based on our strategic review, we came to the conclusion that this integrated model was a source of ambiguity and a blurring of the true risk reward profile of individual businesses. Also, it led to the creation of excessively elaborate processes and unnecessary layers of complexity. The new structure of more independent business groups will, in essence, have three advantages going forward:

- On the management level, it will create more agility for our business divisions and will allow them to respond better and faster to the changing environment, which is particularly important in this period of uncertainties for the financial services industry.
- It will also produce clearer accountability for business results and maximum transparency with respect to the competitive position and value creation of each of our businesses.
- On the more strategic level, this repositioning will create maximum flexibility to capture the best possible opportunities for shareholder value creation in the future.

Overall, the new structure will introduce and maintain a spirit of change and transformation throughout the Bank and will help UBS emerge as a stronger Bank from this crisis.

I have to report on two other items with respect to the past.

Shortly before the AGM in April we published a Shareholder Report on UBS's write-downs which was a root cause analysis of the losses we sustained from US mortgage and asset backed securities. On the basis of this, during the last few months, we developed a remediation plan, i.e., a comprehensive plan that detailed how we wanted to address the lessons learned from the credit crisis. The proposals range from strategy and governance to risk management and risk control areas and also include finance, funding, and balance sheet management as well as compensation aspects. This plan was submitted to the Swiss Federal Banking Commission and a summary of it was published on our website on August 12, 2008.

As with the Change Program, it is critical that the remediation plan is subject to tight project management. To that end we have appointed a senior manager to lead the project. Both the executive management and the Board of Directors closely supervise and monitor the progress of our remediation.

Where are we in relation to our remediation plan? We have developed detailed plans for each area requiring remediation. Deadlines have been set and responsibilities allocated for each action item. There is no doubt that some issues will not be fixed overnight. For instance, improving data quality and refining our system architecture in the Investment Bank is a continuous process. Other issues can be resolved in shorter time frames. We have already completed, are well advanced or have a clear view as to how we are going to execute the required changes in the vast majority of areas requiring attention. Let me give you a sense of what we have done or are working on:

- A significant number of personnel changes have been made in key positions.
- How we determine and allocate risk capacity is being adjusted.
- The risk function has been reconfigured by combining market and credit risk. This will improve our ability to understand portfolio and concentrations across all their risk dimensions.
- Significant refinements have been made to the way we measure and evaluate risk, especially with respect to market risk.

Finally, on a different subject, in June, we successfully completed our rights issue with 99.4% of shares taken up by existing and new shareholders. Together with the lower level of risk-weighted assets, this led to a rebuilding of the capital ratio to a very strong level, which on June 30 was 11.6% tier one and 15.7% total capital – among the highest in the global banking industry. I would like to thank all shareholders for the support and trust they have shown in UBS with this.

Looking ahead

Now, let's look into the future. As I said at the beginning, the markets and the financial industry are in an extremely precarious situation. It looks now as if these conditions will last into 2009. This will influence the timing of recovery for the financial services industry generally and for UBS in particular. Thus, in the near term the focus is on navigating UBS through these very difficult markets and we shall take all appropriate actions for that purpose.

Beyond this, over the next few months, we have to work on four main building blocks for a solid future of the Bank:

- First, we will return the Bank to profitability. Marcel Rohner and I have said that the Bank will be profitable in the year 2009, i.e., the year 2009 will be an overall profitable year. Despite the difficult environment and the latest developments we still are fully committed to and optimistic about achieving this objective.

- At all times we want to maintain a strong capital base, adequate liquidity and a solid balance sheet. To these ends we will continue with our efforts to aggressively reduce our risk exposures in all areas where we have remaining risk concentrations. This includes a further reduction of the balance sheet.
- Another very important priority is the settlement of our largest legal cases. We have been able to settle one important case, the regulatory investigations into the sale of Auction Rate Securities to our clients. This leaves the investigation by the U.S. Department of Justice and other authorities into our conduct in relation to cross-border services provided by Swiss based UBS client advisors to U.S. clients. We are fully committed to solving this case and we are working very hard on it. We decided, some time ago, to cease providing such cross-border banking services to U.S.-domiciled clients through non-U.S. regulated entities. We will completely exit this business and have established a project team to implement this in the fastest and most efficient way within the confines of the law. We also publicly acknowledged that some facts of this case involved behavior by employees of ours which we do not and will not tolerate. Our own compliance rules have been broken and we very much regret this. Our efforts to solve this matter and to exit this business are closely supervised by a special committee of the Board of Directors which underlines the seriousness with which we take this case.
- Then, we need to implement our change program, including the new group management structure which will help us to act even more rapidly to solve our issues. To ensure this, we will operationalize the new Executive Committee of the Bank and work on the related structural adjustments and delegation of authorities.

This brings me to my last part and the longer term view. Our vision for UBS consists of three principal elements:

- **First: The full recovery of UBS's reputation**

We must fully restore our reputation as quickly as possible. We want to be an accepted industry leader again. And in Switzerland, our home country, we want to be a respected national champion again. We will work hard and with humility. First and foremost, we need to perform solidly again. Finally, I am fully aware that regaining reputation will necessitate an appropriate overhaul of our compensation models and adaption of bonuses and other compensation to the new situation of the industry. We work on this and will report on it at a later point in time.

- **Second: A full client orientation in each of our businesses.** This includes:

- a. A solid and sustainable investment performance for our clients in all segments (retail, private banking, institutionals)
- b. The generation of positive flows of Net New Money (NNM) in each of our businesses, in particular in Wealth Management and Asset Management

- c. An Investment Bank which produces dependable and predictable profits along a more client-driven strategy, with a revised product, geographic and segment focus. This will include prudent risk taking on behalf of clients but we will take no major risk which has no connection to our work for clients. In order to achieve this we have a substantial repositioning effort within the Investment Bank underway. We have adjusted our cost base and headcount to respond to the current market challenges and we will continue to do so in the coming months to ensure a return to profitability at the earliest possible time. We have already surpassed our balance sheet reduction targets and will accelerate our efforts for the remainder of the year.
 - d. Increased collaboration and cross-divisional revenue generation between our three autonomous businesses
 - e. Gains in market share in the areas of strategic focus of each of our businesses
- **Third: The achievement of ambitious and sustainable financial targets.** This includes:
 - a. A strong equity base and reduced balance sheet
 - b. A reduced cost base based on continuous productivity and efficiency gains
 - c. Return to normalized profitability levels and return to a solid growth rate

Delivering on these targets will be the next leg of our recovery journey. We have already achieved a number of things. Our balance sheet has been reduced from a peak of CHF 2540 bn in 2007 by over 500 bn to around 2000 bn today. Risky positions on our balance sheet have been written down, closed out or sold. Headcount and operating costs are in the process of being reduced. I am proud of our management and staff, who are responsible for these achievements, which require hard work day in day out.

Now let me conclude by making a promise to you: All the decisions and actions taken up to now and those going forward have one goal: to create a new, respected and successful UBS, a UBS of which you can be proud as shareholders, investors, clients and employees.

We are fully committed to working hard on the immediate steps and the more longer term vision elements. Though the Bank still operates in a difficult environment, I sense that we have found our pace of transformation which will lead us into a good future again.

Thank you very much for your attention.