

# Annual General Meeting of April 15, 2009

**Speech by Kaspar Villiger**

*Check against delivery*

Dear Shareholders,

## **1. The Board of Directors**

You have just elected and strongly renewed the Board of Directors of your company. In so doing, you have signaled your confidence in us. I want to thank you for this, on behalf of my colleagues but also myself personally. We will do everything in our power to justify this confidence. I would also like to thank the people just elected for making themselves available to us in the first place. It takes a lot of courage and dedication to do so in these times of crisis, and for a company that is facing so many challenges. At this time I would also like to thank Oswald Grübel for his willingness to take over the helm of UBS in these difficult times. At the moment, many people are all too willing to openly criticize everything and everyone, and they're assured of public support. But only a few people are willing to step in and take some risks to find solutions, no matter how serious the problems are. Oswald Grübel is one of them.

I also thank the colleagues who are leaving us. They dealt with an incredible workload last year under the leadership of Peter Kurer and have set the wheels in motion for an impressive transformation process. Peter Kurer, out of a sense of duty, took over as Chairman a year ago under difficult conditions, and he set some key milestones for the future. Thank you, Peter!

In a large company such as UBS, the Board of Directors has to delegate management. For banks in particular, the law stipulates a clear separation of operational and executive management. For this reason we need to clearly separate the roles of the Board of

Directors and the Executive Board. The CEO will manage the bank with a strong hand. The Board of Directors, for its part, will work with the CEO to set the strategic goals of UBS, determining its values and standards while helping to define, and approve, the remuneration policy. Of course it will also perform key monitoring and controlling tasks.

The Board of Directors has a wealth of experience and extensive professional knowledge. As Chairman I will actively use this professional knowledge and challenge my colleagues. The Board of Directors must and will act as a critical, but constructive and competent, discussion partner to the Executive Board.

## **2. The task**

The massive turmoil within the financial markets followed by the global economy's plunge into a severe recession was on a scale we never expected. Essentially, we are talking about a major loss of confidence that not only affects the financial markets and banks and their managers, but also other parties such as rating agencies and supervisory authorities.

The crisis of confidence facing our bank has, as we know, roots within our own four walls. Over the last four weeks I have held countless discussions with current and former Board members, current and former bank managers, and representatives from official agencies and other financial center experts. I have also studied many reports and publications. I wanted to get a clear picture of the situation before I took office. I can only second the frank and honest analysis of the situation that Oswald Grübel has just provided. I also think that regaining lost confidence is our most important goal, but it will take a lot of hard work and determination. The Board of Directors and management are ready and willing to take on this great responsibility. Our aim is to restore UBS's reputation to its former luster through superior performance, propriety, integrity and the creation of added value for all our stakeholders, starting with our clients and the countries in which we do business and including shareholders, creditors, taxpayers, regulators and employees. That our main focus is our clients and not our bonus payments needs once again to become second nature to all of us. To achieve these things, we must return to a level of sufficient earnings and capital. We also want to work to relieve the burden on taxpayers.

### 3. Offshore banking

Many governments have put a great deal of pressure on Switzerland and created the impression that offshore banking, i.e., the management of foreign assets in Switzerland, is something disreputable. That's simply not true. I think that the need for offshore banking will tend to increase in the future. But tax evasion as a primary motivating factor for it will continue to decline in significance. Many investors want to protect themselves against political and financial instability in their countries, and they have a right to personal privacy. They also seek highly professional banking services. These needs are legitimate and have nothing to do with tax evasion. So offshore banking will continue to evolve, but it won't die off.

It is legitimate in general to ensure the personal privacy of investors through bank-client confidentiality. Under no circumstances can we permit a "transparent citizen" in this age of pervasive information. Of course, bank-client confidentiality should not protect criminal or fraudulent behavior. It hasn't done so for a long time because it has gradually evolved in recent years. I believe that, today, Switzerland is one of the most upstanding financial centers in the world.

But it is equally legitimate for other countries to seek to combat tax evasion. If the Federal Council wants to expand the duty to provide information in specific cases with concrete grounds for suspicion, we should not criticize this. However, the automatic exchange of information would be a step toward "transparent citizens." It signals the mistrust of the state toward its own citizens. Mistrust does not foster loyalty to one's country. It puts a strain on it. At the same time the automatic exchange of information is also not efficient. There is a critical technical weakness associated with it. Because it only functions based on the so-called paying agent principle, tax-evading investors can avoid the automatic exchange of information easily. They only have to move their paying agency outside of the system. The tax authorities in their homeland come up empty handed, and the region with the automatic exchange of information loses capital. As a citizen, I am against such a system.

Only the combination of information exchange in individual cases, when it is requested because of a valid suspicion of income tax evasion or fraud, along with a carefully designed

withholding tax for earnings on assets will help us efficiently achieve both goals: securing tax revenues for the country of residence and avoiding the transparent citizen. In my estimation, the automatic exchange of information will result in neither the source state nor the state of residence receiving the tax revenue it expects.

#### **4. The “concentration of risk”**

The government has assisted UBS because both major banks are so crucial not only to the efficient functioning of our financial center but also to the rest of the economy. The decision may not have been a pleasant one, but it was the right one. UBS essentially benefited from a government guarantee, which is why it has been so hotly debated in day-to-day politics. I would like to mention five points here:

1. Many people are afraid that this virtual government guarantee would lead the bank to act impulsively. I can assure you that this is not the case. We view the government assistance as a painful defeat, from which we will strive to learn the right lessons.
2. Because public funding was used to support UBS, it is correct and legitimate for politicians to concern themselves with us. We must accept this. I can also understand a certain amount of bitterness among the general public. Do taxpayers have to pay the bonuses for top earners? Shouldn't politicians be able to direct how the bank should be structured, and how high salaries can be?

There are conflicting interests here, which present difficulties. Taxpayers have a right to demand that their money be handled prudently. But the bank has to stay competitive in the market economy if taxpayers are to get their money back. Even if the government trades its convertible notes for shares, more than 90% of the bank's stock would still be held by other shareholders, from private investors to major investors and pension funds. The Board of Directors is just as responsible to them. If the markets got the impression that politicians could impede the bank's competitiveness through imprudent interference, it could pose serious and harmful threats to the bank. The situation is too grave to be used by political parties to raise their profile.

3. I would like to illustrate these conflicting interests by way of the remuneration policy. Excessive salaries have angered me as well. They need to return to a normal level. Incentive structures must be designed to reward sustainable value creation, not the impulsive assumption of high risks. The politicians' calls to action are justified in this regard. At the same time, the bank operates in a real environment. If it wants to solve major problems, it needs the best people, especially in times of crisis. If taxpayers want their money back, or even to make a profit on their investments, it is more important to have top-quality management than rock-bottom salaries.  
To my knowledge, UBS is the only major bank in the world that has worked with academic support to revise its salary structure for senior management with a view to long-term incentives. Our salaries have fallen more than the competition's. We stand behind this, and I will continue to monitor the situation. But we're seeing increasing evidence that we're starting to lose our competitive edge with regard to recruiting the best of the best. This should be a message to those who think the bank should take more extreme measures. I can assure you that we will do everything in our power to find a workable and politically responsible solution to this tense situation.
4. UBS will have to develop a business model that facilitates sustainable economic success. This will require an optimal structure. Naturally it is reviewing all of the suggestions that have arisen in the public debate. But here, too, politicians should abstain from trying to impose constraints on UBS that would dull its competitive edge. That would never be in the best interest of taxpayers or our country.
5. The question as to whether the small country of Switzerland can afford the risk of having two large banks is an important one. It's a matter of risk concentration. Should we "divvy up" the major banks politically and limit their international scope – to the detriment of one of the sources of our prosperity, our financial center? Or should we, when the crisis hopefully subsides, go back to business as usual?  
The Swiss economy has a global focus. We need banks that can deliver global services to it. Those who have substantial assets under management with us also demand these services; otherwise they will find another bank. For this reason, the major banks cannot randomly cut out entire service segments.

Nonetheless, the problems will be mitigated. The financial sector as a whole will shrink, along with many institutions in the industry. Both of Switzerland's major banks also need to survive to maintain a competitive playing field, and so that neither becomes too powerful. And more stringent capital requirements are justified as they will make the banks more resilient and keep the brakes on their expansion even when markets are booming. But for the time being, we should focus on overcoming the crisis and not creating market volatility with more and more ways to intervene. As Oswald Grübel said: the bank now needs peace and quiet.

## **5. The employees**

Finally, I would like to take a moment to talk about our employees. The vast majority of them have delivered honest, solid and good work for years. Certainly, like everyone else in the industry, they've earned a good salary, but they haven't been taking advantage of the system. And now, they're concerned. They're being criticized and are often afraid to admit where they work. They know that severe cost-cutting measures are needed and are afraid they might be affected by them. Nonetheless we demand their full commitment and full motivation. This is the only way we can overcome the difficulties we face and get back on track. Precisely these people, with their dedication, abilities and professionalism, are our greatest asset. We must take care of it. I ask all of you not to take out any frustration you might feel – however understandable – on our employees, who are doing their very best. And I ask our employees not to lose heart. We can only succeed together.

## **6. Conclusion**

Dear shareholders, in closing I would like to thank you for your loyalty. After many years of good growth, you unexpectedly lost money with your UBS shares. We are painfully aware of that. We also know that we have a duty to our country and our people. We don't know what else the crisis will bring. But we will return with renewed energy to improving those things that we can to the best of our ability. Thank you.