

Annual General Meeting of UBS AG on May 7, 2014

Speech by Sergio P. Ermotti, Group Chief Executive Officer

Check against delivery.

Ladies and Gentlemen,
Dear Shareholders,

Again, welcome to our Annual General Meeting.

UBS is on the right track!

The pleasing results for the past year are evidence of this.

2013 was a very important year for UBS: We wanted and had to prove that the strategy we embarked on is the right one. 2013 was a year of execution.

We worked very hard, day after day, we backed up our words with action.

And today I am proud to say that the results are impressive. In 2013 UBS generated adjusted profits before tax of 4.1 billion Swiss francs. And our share price also reflects our hard and diligent work: UBS shares climbed nearly 19 percent in 2013. This means that you too, dear shareholders, continue to place increasing confidence in us.

The success of our strategy also has a tangible effect on our dividend: in line with our progressive dividend policy, we are today proposing a distribution of 25 Rappen per share, an increase of 67 percent over last year.

Three factors were crucial to achieving the turnaround:

1. Firstly, we decided on the right strategy. We placed the focus on our world-leading wealth management businesses and, in Switzerland, on the universal bank. Our focused Investment Bank and Asset Management units, which are both among the world's best, complete the model.
2. Secondly, we were absolutely rigorous in the implementation of this strategy. Realigning the Investment Bank toward a customer-centric business was welcomed by many but, at the same time, seen by others as an impossible task or a risky move. The solid results achieved by this focused Investment Bank proved we did the right thing.
3. And thirdly-we were able to count on the patience of our shareholders, the loyalty of clients and a great team. In particular our clients and employees have swiftly embraced our strategy, enabling its successful implementation.

One year ago, I promised you that we would continue to let our priorities be guided by three pillars:

- Capital strength,
- efficiency and effectiveness,
- and risk management

I also said that we would concentrate even harder on our business by placing the focus on three principles:

- Client focus
- Sustainable performance
- Excellent service

So, how successful have we been with these pillars and principles?

Let me start with *capital strength*.

In 2013, we raised our fully applied core capital ratio to nearly 13 percent, more than twice the pro forma ratio we had in the fall of 2011.

- We focused our business on those areas that are profitable in the long term, and decided to exit other businesses. We removed risks from our business. This allowed us to once again reduce our total assets by 20 percent.
- And our risk-weighted assets dropped from 258 billion francs to 227 billion. This means that at the end of 2013 we had almost reached the target we had set for 2015.
- The acquisition of the equity of the Swiss National Bank's special purpose entity enabled us to put the matter of state aid for UBS behind us. Thanks to the good collaboration between the National Bank and UBS, the rescue mission was brought to a positive conclusion for all parties involved. This had nothing to do with luck. The 2008 transaction and the related capital injection led to billions of francs of profit for the Swiss Confederation and the National Bank.

All these developments taken together mean that UBS continues to be the best-capitalized bank among its peers by CET1 ratio. As we were pleased to announce yesterday, we already reached our target for 2014 – a CET1 ratio of 13 percent – in the first quarter. If we maintain this ratio in the future, and also a CET1 ratio of at least 10 percent after stress testing, we intend to distribute a minimum of 50 percent of our profit.

Now on to the second pillar: *efficiency and effectiveness*

We have implemented several programs to increase our efficiency. And they are having an effect. Compared with the first half of 2011, we have managed to make gross cost savings of 2.2 billion francs. Controlling our costs will remain an important task.

And last, our third pillar: *risk management*

This is, of course, a crucial area for a bank. Again, we were and are very active in this respect:

- We further strengthened our control processes.
- We merged the Operational Risk Control and Compliance functions, so that we can take an even more integrated approach.
- And we defined and introduced clear behaviors for all UBS employees – not just in terms of risk management. Conduct and behavior form part of the basis on which every single employee is assessed. A strong and positive culture helps us attract the right employees.

I firmly believe that how we achieve results is just as important as the results themselves. My conclusion: No amount of profit is worth more than the reputation of the bank.

But when you employ a significant number of people, you cannot rule out the possibility of there being one among them who believes they can beat the system. All organizations are a reflection of society and can therefore never be 100% safe. For this reason it is important that we identify any potential issues as soon as possible. And that we act swiftly and decisively to avoid or limit any financial or reputational damage. Banks and the state must work together and take forceful action against these individuals. I believe it makes little sense to condemn the industry as a whole as this may have unforeseen consequences.

Our results in terms of the three principles of client focus, sustainable performance and excellent service are also impressive.

Let's begin with our proximity to clients:

- In our wealth management businesses we were definitely very focused on clients. Otherwise we would not manage around 1.8 trillion francs. Since 2011 we have had net new money inflows of approximately 150 billion francs, 54 billion of which were in 2013. UBS was again named Best Global Wealth Manager by financial magazine Euromoney. Wealth Management Americas did particularly well, achieving a great result and an important strategic target with one billion dollars in adjusted profit before tax for the year.
- UBS Switzerland also performed very well. Our Retail & Corporate business again won market share. Euromoney named UBS the Best Bank in Switzerland again and our new e-banking platform recently received a prestigious award. Customer satisfaction in Switzerland also continued to increase in 2013.
- The Investment Bank also posted profits in the billions as well as returns that far exceeded the minimum target of 15 percent on allocated capital. Our clients and employees have faith in our model and are behind us.
- Global Asset Management achieved an increase in adjusted profits of 8 percent and posted an adjusted return on allocated capital of 33 percent.

Let us now come to the principle of sustainability. We want to anchor a culture of long-term thinking and action in the bank. We want our success to be sustainable. Not only for us, but also for our clients.

We want our communication to reflect this, too: we communicate in an open and transparent manner. This, we believe, is the right way to gain and retain people's trust – even if this level of transparency sometimes exposes us to criticism in public.

Our compensation model is also geared to sustainability, as Axel Weber just explained to you in detail.

Today, 50 percent of our employees are also shareholders. At the end of 2013, UBS employees held around 7 percent of all shares in our bank. This means that, together, we employees are the biggest shareholder group. The interests of shareholders and employees are consequently becoming increasingly aligned.

Lastly on this point, I would like to give you one hard fact that is evidence that we are on the right track in terms of sustainability: UBS posted profits in every division in each quarter.

This leaves us with the third point, excellent service. What we want here is not excellence as an end result, but as a principle that we strive for in our work day after day.

The good business results in 2013 can certainly also be seen as the result of excellence in our daily work. Being highly skilled in different individual areas is one of our bank's strengths. But it is only through collaboration between these areas that we achieve the best for our clients.

We are constantly investing in excellence. A few examples: in the past year, our employees completed a total of 1.2 million hours of training. And we invested more than a billion francs in our digital systems.

We all need a home in society. Two-thirds of our business is global, but – as I said last year – Switzerland is our home.

Allow me to present to you some figures that illustrate just how many people in Switzerland have a connection to UBS:

We have 2.5 million private client and 130,000 business client relationships. That means

- nearly half of all companies work with us
- one in three households has an account with us
- one in five mortgages are financed by us
- one in six francs saved is managed by us.

And with more than 21,000 employees, we are the third-largest private employer in the country.

Another aspect often overlooked is that in Switzerland, we are also the bank for banks.

On the one hand, we train many young professionals who later join other banks. For example, there are currently 1800 apprentices learning about the business of banking at UBS. On the other, we offer our services to other banks so that they may provide their clients with a comprehensive service. That is also the reason why 90 percent of local banks are UBS clients.

Clients, shareholders, employees – they are who we focus on. But as a bank we also want to give back to society. Our commitments are not always well received, as the case of the University of Zurich unfortunately showed. Rarely has such a large sum of money been invested in education and research. And rarely has anybody been so severely criticized for a well-meant gesture. The way some reacted, both in terms of what they said and how they said it, was unacceptable. I find that a real shame. And that is being diplomatic about it.

However – we will continue to invest in education and research, because both are important for our country.

We are also committed to social projects around the globe. In Switzerland, for example, we donated a total of 2.6 million francs to good causes in 2013 via our foundations. And we grant our employees two working days per year if they volunteer in schools or to help children with their homework, for example.

Now, though, back to business:

We announced yesterday where we stand after the first three months of the year, and where we want to be in future.

Most importantly – we will stick with our successful strategy.

This includes remaining lean in terms of our expenses. We have a plan, and we will implement it in a disciplined manner. We will continue to reduce costs and improve our efficiency.

In addition, we will continue to reduce our balance sheet. This means we will continuously decrease the size of our non-core and legacy portfolio.

At the same time, we want to optimize Asset Management, which is and will remain an integral part of UBS as well as a major growth area.

Wealth management is and will remain at the core of our global business. We will therefore concentrate on further developing this business. No one else can offer the combination of expertise, service offering and opportunities in this area that we do.

We also announced yesterday a further important step in how we plan to change our legal structure. We announced plans to establish a group holding company through an exchange offer to be commenced before the end of the year, subject to regulatory approvals. This follows our earlier announcement of our intention to create a separate company in Switzerland and Great Britain, and the requirement to establish a holding company in the US. These changes will help us to meet national and international "too big to fail" requirements in an efficient way. And this structure is also of benefit to you, our shareholders.

If successfully implemented, the group holding company would enable us to pay you an additional capital minimum distribution of 25 Rappen. The new structure will not result in us needing to raise new capital. It will also not change our strategy, business model or the way we serve our clients.

So, we can look back on a successful year, we have a strategy that works and we have concrete plans for the future.

So how will we continue to move forward this year?

The three pillars remain: capital strength, efficiency and effectiveness, and risk management.

The principles also remain: client focus, sustainable performance and excellent service. And – we will continue to focus not just on what we do, but also on how we do it.

That may sound boring but it is consistent.

On our way to a calmer future we have accomplished a lot and thoroughly streamlined things. UBS has made progress – at a faster pace than many – but we still have work to do. I will therefore not paint you a rose-colored picture of the future. We are in a good position and doing the right thing, but we have not yet seen the end of all issues from the past– they will continue to cost the industry and us time and effort.

I, of course, do not want to finish without saying thank you:

Firstly, I want to thank our clients, who reward our efforts by placing their trust in us.

Thanks also go to our employees, who work hard at making our bank a success.

Thank you also to our Board of Directors and Axel Weber, the chair, for defining with us the direction we need to go in and leaving us enough room in implementation.

And last but not least, in particular I want to thank you, our shareholders. You had and have faith in the success of our firm, and you took the time to be here today.

Let us take today to enjoy this moment of success together. Tomorrow, we will start working on the future of the bank again.

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.