

**Open Letter to the Board, Management,  
Employees, Shareholders and Customers of UBS**

2 May 2013

Ladies and Gentlemen,

**Knight Vinke is an institutional shareholder of UBS. We are publishing this letter now, on the date of the Annual Shareholders' Meeting, so as to initiate a transparent debate about UBS' group structure. In particular, we question the merits of keeping the Investment Bank under the same roof as the Wealth Management and Swiss Banking businesses.**

**The Investment Bank has delivered a good set of results for the first quarter of 2013 but nearly destroyed UBS in 2007-09. Investment banking is a very risky business and these risks pose a serious threat to UBS' Wealth Management and Swiss Banking franchises. They may also be preventing them from achieving their true potential. This is a discussion that is best had when all the businesses are doing well – as is the case today – and the Board needs to be encouraged to act quickly and decisively so as not to lose the opportunity.**

As we all know, in 2007-09 the Investment Bank lost SFr 57 billion and UBS had to be rescued by its shareholders and by the Swiss National Bank. In 2011, we were again reminded of the risky nature of investment banking when UBS lost SFr 1.8 billion as a result of an "unauthorized trading incident" and in 2012 it was fined SFr 1.4 billion for its part in the LIBOR rigging scandal. Of course, this record of losses is not unique to UBS – many other banks have also suffered catastrophic losses in the last few years. In the case of UBS, however, the damage has gone further because the losses have weakened the reputation of its prized Wealth Management division and the all-important trust of its clients.

UBS appears to believe that the Investment Bank can now be re-engineered to generate reasonable returns for shareholders by eliminating some of its most capital intensive units. This has been achieved by parking these "non-core" businesses, together with the Investment Bank's toxic "legacy" assets, in other parts of UBS. It is no surprise, therefore, that the Investment Bank is now producing very good results – but one should remember that the Group as a whole remains exposed to these risks.

In the case of UBS, the risks that are inherent to investment banking are compounded by organizational complexity and territorial behaviour that result from the way in which the Group was created through a series of major cross-border acquisitions. These risks are unrelated to capital intensity or size and are not adequately addressed by the down-sizing of the Investment Bank and internal transfer of some of its activities.

It is argued that the Investment Bank brings cross-selling opportunities to the Wealth Management business – and to a limited extent this may be true. However, whatever benefits there may be need to be viewed in the wider context of the risks that the Investment Bank brings to the Group as a whole – and the damage that it potentially does to the brand and client trust that are so vital to the Wealth Management and Swiss Banking businesses.

**What is missing, in all of this, is a far more ambitious vision of what UBS' Wealth Management and Swiss Banking businesses might aspire to if they had none of the risks associated with the Investment Bank or its related portfolio of legacy assets.**

**What is also missing is the recognition that the best owners of the Investment Bank could well be its management and employees – who in any case receive the largest part of any profits. Since 1998, the Investment Bank has paid SFr 115 billion in salaries and bonuses to its employees. By contrast, over the same period it has contributed a negative SFr 25 billion to its parent and shareholders. Transferring full or partial ownership of the Investment Bank to insiders would almost certainly lead to more prudent behaviour.**

To its credit, the Board under the direction of Dr. Axel Weber has taken a welcome first step in the restructuring of UBS by repositioning the Investment Bank. The Board now has the opportunity to go further so as to unlock the full value potential of UBS – by separating the Investment Bank from Wealth Management and Swiss Banking, by possibly contracting out the liquidation of the legacy portfolio, and by simplifying the Group structure so as to reduce risk overall.

We now urge the Board to pursue these strategic options as a priority and to ensure that the interests of shareholders are kept distinct from those who have vested interests of their own.

Yours sincerely,



Eric Knight