



Mr Sergio Marchionne  
Non-Executive Vice Chairman  
UBS AG  
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Dear Mr Marchionne

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Thank you for your letter. I look forward to meeting before the AGM. As it appears that this may not be for some time, I thought it would be helpful to provide some further clarification as to the steps we would hope that you would take between now and the AGM. We believe that these requests represent the reasonable expectations and best interests of shareholders.

We address four issues in this letter:

- The process and criteria for selection of a new Chairman
- Maintaining an open seat on the Supervisory Board for the new Chairman
- Clarification of our views on the integrated model
- Terms of the proposed rights issue.

#### **Process and criteria for selection of a new Chairman of the Supervisory Board**

We do not believe that UBS can continue without an experienced and independent Chairman in its current situation, given its balance sheet leverage, risk position, important strategic challenges, client disaffection and low staff morale. It would be unwise to rely on international markets offering an early respite. Succession planning and selection of a new Chairman are the most important responsibility of the Supervisory Board and we are concerned that a hasty and flawed process has failed to produce a properly qualified candidate.

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We would appreciate your reassurance in the coming days that the Supervisory Board will undertake a new search for a Chairman and that the search will respect the following conditions:

- Identify the best possible candidate for the post – we suggest key criteria for the suitability of the candidate below
- Clearly state that the appointment of an interim Chairman will be for the duration of the search only. It will be impossible to engage serious candidates without this pre-condition, especially given the circumstances surrounding the last inconclusive search.
- Guarantee that neither the current Chairman nor the new Chairman proposed by the Board will participate in the process in any way – whether screening, interviewing or participating in the Nominations Committee or Supervisory Board discussions.

The criteria we propose for the evaluation of potential Chairmen are:

- Absolute independence to allow a fresh view of why UBS has fallen into such difficulties and what remedial strategic and operational steps should be taken
- Banking experience to provide insight to the different businesses and risks including market risk
- Swiss national – or someone seen as such - to facilitate dealing with what is a national crisis as much as a company specific crisis
- Strategic skills to guide the strategic repositioning of the bank and its franchises
- Proven leadership and communications skills to motivate 80,000 staff and represent the bank and Switzerland globally
- Experience as Chairman, CEO or CFO of a large listed company.

We are confident that there exist candidates who fulfil many or all of these criteria, and to settle for less is not to serve the interests of the company and its stakeholders. Merrill Lynch successfully recruited a new Chairman who fulfils all these criteria in a US context and his appointment was universally well received.

#### **Maintaining an open seat on the Supervisory Board for the new Chairman**

In order to accommodate the outcome of this search, we would ask that the Supervisory Board ensure that at least one of the four available seats on the Supervisory Board will be left vacant at this time – this is consistent with the intention to find a new permanent Chairman. Naturally, we would leave it to your discretion to decide which of the candidates for election or re-election to the Supervisory Board should bow out to permit a vacant seat to be maintained, or alternatively what alternative solution could be proposed to meet the concern.

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We repeat that we have the highest respect for Peter Kurer as a lawyer and colleague, but that we neither believe he has the qualifications to be Chairman of the Supervisory Board nor that he is the best possible candidate that UBS can attract. Furthermore, his executive role on the Group Executive Board over many years – and of the Risk Committee - makes him an insider in the fullest sense.

**Clarification of our views on the integrated model**

We would also like to take the opportunity to clarify our views on the integrated model. We did not state categorically that the investment bank should be sold or spun off, partly because it would not be possible in this market but also because, with the appropriate leadership, such a model can work. It does offer synergies, although the open architecture model of the Wealth Management business and the implications of best price execution will limit the level of synergies that are achievable.

Still, there are two clear disadvantages of the integrated model:

- Increased complexity, which places a greater demand on the competence of the Board and management, as has been amply demonstrated by the proprietary trading losses
- Conglomerate and complexity valuation discount and potential contamination of the valuation of the most valuable business, Wealth Management, by the lower rated and more volatile business, Investment Banking.

We would also note that empirical evidence has shown that the best model for an investment bank is one that is focused and where the risk discipline is reinforced by management's direct equity exposure to the success of the business.

Additionally, whatever the theory, the aftermath of the recent dramatic losses has severely undermined customer and staff confidence in the integrated model, hence our suggestions that greater separation would benefit both the Wealth Management and Investment Banking businesses.

As mentioned in our last letter, we recognise that you are in a position to provide an informed view of the legal, tax, operational and regulatory challenges to moving toward greater separation and independence of the Investment Bank and Wealth Management Businesses and look forward to discussing these with you.

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**Terms of the proposed rights issue**

We noted with interest the reference in your press announcement last week to UBS' CHF15 billion rights issue having been fully underwritten by a syndicate of banks. We consider that the specific terms of the rights issue - for example the pricing and the key terms of the underwriting agreement - comprise material information for UBS shareholders as they assess the company's future prospects. We therefore think it is entirely appropriate for such information to be made available to UBS shareholders prior to the forthcoming AGM and we and your other shareholders would, I am sure, welcome such disclosure.

I very much look forward to meeting with you and seeing how we might reconcile our views and those of the Supervisory Board.

It remains my view that the rehabilitation of UBS is eminently achievable; but only if the Board addresses the fundamental issues we have outlined, and does so with suitable urgency.

Yours sincerely

Luqman Arnold  
**Chairman**