



22nd Annual General Meeting of Bank Sarasin & Co. Ltd, 22 April 2009

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Christoph Ammann, Chairman of the Board of Directors

Shareholders, Ladies and Gentlemen,

The scale and the intensity of the financial crisis which broke last year has been far worse than anyone could have imagined. The events that came to a head in the autumn of 2008 drove straight to the heart of the financial services industry and pushed the global economy into a deep recession. Previously rock-solid investments and institutions were shaken to the core, and some eventually collapsed, shattering the confidence of many market players.

Causes and effects of the financial and economic crisis

Much has been written in recent months about the causes and progression of this momentous financial crisis. But today I'd like to concentrate on the fundamental structural changes this crisis is likely to have, and the measures required to ensure a healthy and sustainable recovery of the global financial system.

Causes and effects of the financial and economic crisis

- Limits of a globalised financial system
- Limits of globalised finance and investment products
- Limits of integrated business models
- Limits of financial incentives and bonus systems



- **Limits of a globalised financial system:** One of the key factors driving the development of financial markets has been the persistent internationalisation of the world's financial system. Although the system now operates on a global scale, it is still regulated on a national level, and as it becomes more and more complex, so too is it losing its transparency. In such a tightly interconnected system, any single event inevitably has wider repercussions. The unexpected collapse of one of these heavily networked institutions in October 2008 made it painfully clear to everyone just how perilous such a failure could be for the entire global financial system. The bankruptcy of the investment bank Lehman Brothers paralysed a financial system that was already in a very feeble state, causing liquidity to dry up almost overnight. The interbank market came to a virtual standstill. To prevent the worst, governments and central banks intervened in their home markets with a variety of measures on an unprecedented scale. There was only a limited effort to coordinate these efforts globally, which meant their impact on the world's financial system was restricted as well. This not only highlights the limits of globalisation, but also the dangers of creeping local market protectionism. National regulators are sending out initial signals in this direction. This could further jeopardise the swift resolution of the global economic crisis.
- **Limits of globalised finance and investment products:** The trigger for the current financial and market turmoil was the subprime crisis that hit the US housing market in the middle of 2007. The virtually unrestricted supply of mortgages to American borrowers and their subsequent securitisation in the form of structured securities known as collateral debt obligations (CDOs), which were then bundled into tranches of varying quality and credit ratings to be sold on, initially appeared to offer attractive opportunities for investors worldwide. Moreover, this came at a very opportune moment: not just the market environment, but the interest rate and money supply policy of central banks led to an unusually prolonged phase of low interest rates, combined with unprecedented levels of market liquidity. The direct and indirect investment opportunities offering comparatively high yields, bolstered by attractive scores from international rating agencies, promised investors excellent returns combined with what appeared to be a very low risk exposure. Such products can only be executed through a chain of intermediaries. The individual links in this chain subsequently lose sight of the overall picture, however, and no longer feel responsible for the overall risk. The various players in the financial market thus



managed to shirk any overriding liability. With the benefit of hindsight, this fundamental separation of risk and liability turned out to be particularly problematic. During recent years the financial services industry has launched many such products, both on and off the balance sheet, with virtually no transparency. One thing is very clear now: financial products and investment vehicles need to be designed so they are once again transparent and quantifiable.

- **Limits of integrated business models:** The crisis has clearly demonstrated that the modern financial system cannot allow any major, globally active financial institution to fail, because the systemic risks for the global financial system are too great and the resulting damage to the economy appears to be almost impossible to contain. Following the failure of Lehman Brothers, governments and central banks attempted to use all the resources at their disposal to support the large banking groups and financial conglomerates that are crucial to the health of the system. These institutions in particular have made enormous efforts in recent years to establish integrated business models in order to exploit the synergy potential between the various lines of business. At the same time they have exposed themselves to conflicts of interest inherent in the system and taken on hugely inflated systemic risks. Two examples provide eloquent illustration: the fully integrated business models of the investment banking and asset management business have proven to be a burden on specific large financial institutions, because their capital base and financing facilities have been exhausted to such a degree that the resulting risks could not longer be covered by their own resources. In addition, in many markets some of the biggest financial institutions have themselves taken over the market infrastructure functions (i.e. interbank transactions) and in the process have made themselves irreplaceable for all the other market players. Integrating such different business models leads to virtually irreconcilable conflicts of interest, which in turn can prove to be very detrimental to those clients and investors affected. The significant systemic risk associated with this creates a situation in which banks are too big to fail, but also too big to be rescued. Considering the bailouts they are obliged to make, it is very much in the interest of governments and central banks in all the world's leading financial markets to limit the systemic risks of global financial institutions as swiftly as possible and, most importantly, to split off the market infrastructure functions in order to make them independent again. The expansion of such central, autonomous infrastructures would quickly lead to a situation of increased market


transparency and highlight the interdependencies within the financial system. This could significantly reduce the systemic risk.

- **Limits of financial incentive and bonus systems:** The financial incentives offered to the industry's key players play a significant role as well. On the one hand the relevant incentive systems were not geared to the long term, while on the other hand not enough attention was paid to the inherent risks of the business models. The bonus models therefore encouraged employees to take a high-risk approach, to the detriment of the investors and shareholders who mainly carried the risk. These deficient incentive systems, combined with exceptionally ambitious corporate strategies, eventually lead to the failure of control and monitoring systems. Recent developments have clearly borne this out.

To ensure that the financial system as a whole can stage a recovery, it is vital that the confidence of market players is restored first. All market players are required to play their part by exercising self-discipline and changing their mindset. So where's the best place to start?

Five strategic starting points

1. Make business models more long term and sustainable again
 - Acting responsibly and accepting liability are two sides of the same coin
2. Avoid conflicts of interest between competing business models
 - Interests of an investment bank are different from those of an asset manager
3. Strengthen individual responsibility and accountability of governance bodies
 - Commitment to the job rather than to individual interests
4. Reconfigure financial incentive and bonus systems
 - Sustainable and responsible business models rather than short-term maximisation of profits
5. Tone down or correct investors' expectations
 - High returns present a higher risk
 - Emphasis on sustainable returns
 - Select business partners on the above criteria

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I see five strategic points for supporting and speeding up the necessary change of attitude:

- **First**, business models need to be geared to the long term and made more sustainable again. Acting responsibly and accepting liability are two sides of the same coin and belong together in all business activities. They must not be separated, to safeguard the duty of diligence and individual responsibility. I am convinced that this is the only way of restoring shattered confidence.



- **Second**, the business models should be designed in a way that avoids fundamental conflicts of interest from the start. This will allow energies to be freed up to flow into positive activities and produce success in the long run. Purely for this reason, I am against the integration of what are essentially competing business models, and instead favour a separated banks model. The interests of an investment bank as a producer and seller of products on the one hand, and those of an asset manager who has to ensure a consistent investment performance for his investor clients on the other, are completely different and not actually compatible in their core elements. The much-acclaimed synergies – especially those created by combining the financing and placement power of these two business areas – are offset by concrete risks. A fully integrated business model offers virtually no transparency for investors.
- **Third**, the individual responsibility and accountability of governance bodies need to be strengthened so that the link between action and liability is re-established. This requires proactive executives of great integrity, who question their own motives and their work. They should not be driven by personal interest, but show a high degree of commitment to the job.
- **Fourth**, financial incentive and bonus schemes need to be reconfigured in a way that encourages a sustainable and responsible business model rather than simply being geared to short-term profits – with others being forced to pick up the tab afterwards.
- **Fifth**, investors' expectations need to be toned down or corrected: everything has its price. Anyone seeking high returns has to take on board a higher risk. Investors need to scale back their expectations of unlimited performance to a more modest, and ultimately more sustainable, level of return. They would also do well to take the above principle into consideration and select their business partners on the basis of these criteria.

Bank Sarasin already adheres to these principles. It has set itself the goal of living by the code of "sustainability" in all its business activities, to the benefit of its clients and investors.



Where do we stand today in the financial crisis, and where are we headed?

While the origins of the crisis are widely known, the long-term consequences are complex and difficult to be fully quantified. At the moment the central banks and governments of the world's leading industrialised and developing countries are doing everything they can to prevent the economy from collapsing further and heading into a deflationary spiral. By expanding the money supply, central banks are attempting to reduce bond yields in order to improve investment conditions for companies. The increase in public spending is helping to compensate the growing reluctance of private consumers to spend: public-sector demand is taking over from the private sector. By stabilising consumption, governments hope to accelerate the running down of inventories in industry and thus prepare the way for an upturn.

Bank Sarasin's Research team expects a cyclical upturn to set in during the second half of the year. According to our latest Strategy Outlook, global fiscal and monetary policy incentives are sending out strong signals to investors. Investor sentiment has subsequently improved again and triggered a modest rally in financial markets. Cyclical stocks in particular have gained ground. Commodity price increases and an equities rally in developing countries seem to suggest that investors' risk aversion is starting to ease.

Not least because of the high level of state intervention, the current financial crisis will in many respects leave much longer and deeper scars than previous downturns. It is impossible to predict a priori whether the significant expansion of the money supply will be enough to bring about a sustained recovery and restore calm to financial markets in the long run. In the first quarter of 2009, fears of a nationalisation of banking systems and disappointing company results and forecasts have driven equity markets down to new lows. It is unclear just how much capital the global banking system still needs, and what the repercussions might be if GM were to fail. We are still treading on very thin ice.

The question is also what the long-term effects will be of central banks' interest-rate and liquidity policy and the massive programme of state intervention. The measures taken to date will require further government intervention in the foreseeable future in order to prevent a steep and prolonged hike in inflation. It is important to remember that the enormous government rescue packages are inflating public deficits, and these will need to be consolidated again in the mid-term. This is particularly worrying in view of another problem that is steadily growing more acute: the pension system.



Unless suitable measures are taken to overhaul the entire system, demographic changes in the decades ahead will force governments to run up unsupportable deficits.

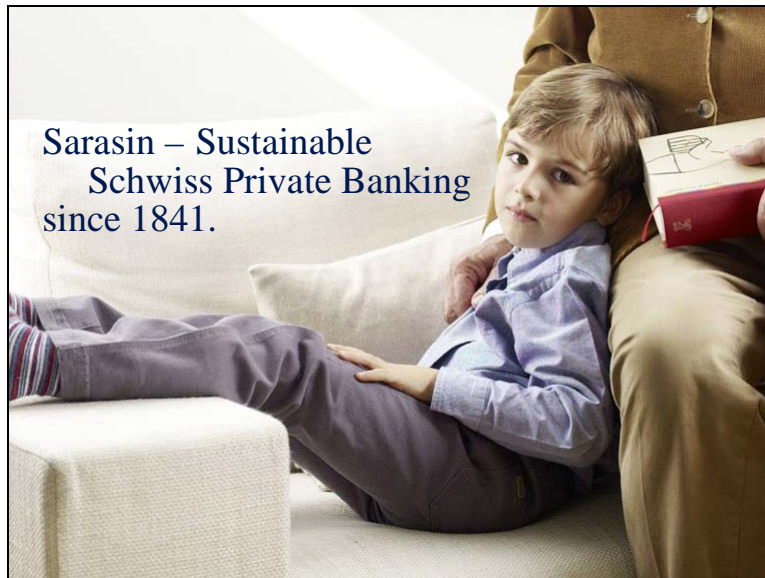
Ever more stringent regulation is not enough to neutralise the excesses of the current crisis. The best way of restoring confidence and rebuilding capital – both so vital for the future – is by assuring a credible corporate culture, transparency, exemplary corporate governance, risk diversification and sustainably oriented business models and investments. There will also be a balancing act between the ideal conception of supervisory law and the justified interests of capital providers, shareholders and employees. Business rules need to be overhauled and imposed within the framework of self-regulation and self-discipline wherever possible.

Another hot topic which has attracted public attention in recent months as a result of the financial crisis and which impacts heavily on the Swiss financial services industry is banking secrecy. Banking secrecy refers to banks' obligation to keep all details relating to their clients strictly confidential. Bank client confidentiality protects the client from anyone wanting to pry into his private financial circumstances. It has never applied in an absolute sense and in particular it was never intended to provide cover for criminal activities.

For far too long the pivotal question regarding bank client confidentiality has centred on the debate about the problematic distinction between tax fraud and tax evasion. The current threats and displays of power from nations which are doing their utmost to impose their high taxes essentially go a step further: the objective of these governments is to ensure their citizens' absolute loyalty to the state. Simply the fact that citizens have assets under management in foreign countries is, in their eyes, a bone of contention and should be prohibited where possible through automatic exchange of data. Switzerland, with its highly successful and competitive financial centre, must do everything in its power to combat this protectionism and fight for a form of cross-border business with its neighbours that is anchored in law. There is no reason why a free market should not be possible in the financial services sector. Clarifying the legal distinction between tax fraud and tax evasion, as well as offering a more effective system for taxing investment income in favour of the home countries of our foreign clients, should clearly take second place to this far more important objective for the Swiss private banking industry. A fundamental disclosure of our clients' private financial circumstances is however particularly unthinkable for our country, or should I say "still not negotiable".



Strategic positioning of our bank



Today the Sarasin Group is already following the direction already described. We are not interested in maximising profits in the short term, but focus instead on sustainability and durability. Sustainability in the widest sense is the most important component of our corporate strategy and one that most effectively sets us apart from the competition. And of course this has been the case well before the latest financial crisis broke. The theme of sustainability is closely identified with our self-image and is a natural progression of our long tradition in banking. For nearly 170 years Bank Sarasin has built a peerless reputation for the professionalism and high standard of its investment advice and wealth management. Over twenty years ago we took what was – not only – in retrospect a visionary step and offered clients sustainable asset management mandates which of course seek to provide a healthy return and capital protection, but also consider social and environmental criteria when making financial investments. In addition, we believe it is important to ensure that our company itself has a focus on sustainability, manages resources carefully and takes account of social needs. Our claim “Sustainable Swiss Private Banking since 1841.” continuously reminds clients of our commitment in this area – a commitment which we are happy for our clients and shareholders to measure us by.

On the one hand our positioning reflects the strategic importance our bank places on sustainability and our expertise as a market leader in sustainable asset management. On the other hand, we are catering for a growing need from our clients, most of whom



take a long-term view on investment and are interested in consistent performance in the long run.

Particularly in the challenging conditions currently imposed by the financial crisis, the prospects for sustainable investments are still good. The generous subsidy programmes launched by governments to breathe life back into the economy will provide an additional boost to the performance of sustainable investments. That's because sectors involved in infrastructure, such as energy, water or IT, are at the focus of sustainable investments and will therefore be principal beneficiaries of government investments. The new US administration's agenda also includes important sustainability themes such as education and healthcare. Many of our investment products have positioned themselves in these areas promising good potential for the future. In addition, ethical business practices have gained added importance from the investor's viewpoint, due to the financial crisis.

The fact that we have withstood the turbulence of 2008 and its many different challenges relatively well is partly down to our consistently strong operating performance and our dynamic pace of growth. But the inherently sustainable business practices we are committed to also play an important role. Even so, we were not totally immune to losses in 2008 which were rather annoying, even though we were able to absorb them.

The strength of our performance is also down to the confidence that you our shareholders have in us. On behalf of my colleagues on the Board of Directors and the Executive Committee, I would like to express my deep gratitude to you all. For us to be able to follow our chosen long-term course, we depend on your trust, and we are grateful for any constructive feedback we receive from you and from our clients.

I'm now going to hand over to our CEO, Joachim Straehle. Joe and his team have done an incredible job of keeping the Sarasin Group on track in 2008. The Bank's management has been supported in its efforts by an extremely dedicated and hard-working workforce. We owe them all an enormous debt of thanks. It is not easy to deliver a consistently excellent performance in a climate of crisis where emotions outweigh objective arguments. The fact that our team has still managed to do so is tribute to their quality and professionalism. Thank you all.