

2000 - a milestone year

Speech by Marcel Ospel, CEO
at the Annual General Meeting of UBS AG on 26 April 2001 in Zurich

Ladies and Gentlemen
UBS shareholders

The AGM is an occasion for us to review the year behind us, even if we are already in the middle of 2001, and to think about our plans for 2002. It is, of course, always nice to be able to look back on a successful year, and 2000 was just that in almost every possible way. In *financial* terms, our results were excellent. We now reap the benefits of the *merger* between SBC and UBS. The *acquisition* of PaineWebber brought us a major step closer to our strategic goals and gave us a strong position in the important US market. And, last but not least, the year 2000 saw *the Bank's share price* rise an impressive 23%.

A brief look at the 2000 financial year

Let us briefly review the key figures. The Group's **net profit** of CHF 7,792m, up 27% year-on-year, was our best ever. Adjusted for "significant financial events", Group profit for the year totalled CHF 8,132m. We defined what we meant by "significant financial events" for the first time in 1999 in order to enhance the transparency and comparability of our figures. They comprise exceptional, non-recurrent Group income and expenditure items that are material and UBS-specific. In 2000, these included, for example, integration costs associated with the acquisition of PaineWebber, and in 1999, a number of significant gains on the disposal of equity holdings. Adjusted for such exceptional items, Group profit was up 74% in 2000.

It is even more encouraging to note that this excellent result was supported by a range of strong growth contributions.

UBS Switzerland increased its pre-tax profit by 35% to CHF 5,675m. The Private and Corporate Clients Division contributed CHF 1,993m, the Private Banking Division CHF 3,682m. The Private and Corporate Clients result was significantly higher than in 1999, showing how the benefits of the merger between SBC and UBS are now showing up in the bottom line. Growth was also helped by rigorous cost control. The Private Banking Division

had a successful year thanks to the exuberant stock markets during the first half of the year and the launch of a number of new products. In addition, its integration into the UBS Switzerland Business Group eliminated duplications in business processes.

With pre-tax profit adjusted for significant financial events up 120% to CHF 4,258m, **UBS Warburg** enjoyed a particularly good year. The Business Area Corporate and Institutional Clients performed exceptionally well, more than doubling its profit with an increase of 134%. UBS Warburg now has a new Private Clients unit, essentially comprising the PaineWebber business. This unit made a loss owing to special staff retention costs of CHF 117m in conjunction with the integration. If these one-off costs are excluded, the unit made a pre-tax profit of CHF 98m in the two months following the merger.

The pre-tax profit of our smallest Business Group, **UBS Asset Management**, was down 26% on the previous year at CHF 322m. This result was negatively impacted by outflows of institutional client funds, mainly in the US but also in the UK. Nevertheless, the Business Group's relative investment performance staged an impressive comeback in 2000 as investors rediscovered the virtues of a core price/value approach in an increasingly bearish market environment. As a result, the outlook for 2001 is more promising.

The Group's assets under management increased significantly year-on-year, rising by CHF 725bn to CHF 2469bn. This leap was mainly due to the integration of PaineWebber, and we are confident that our strategic expansion will bring further sustained growth in the future. This optimism is not without grounds: PaineWebber's daily new money inflows averaged around CHF 200m in November and December.

Before I move on, I would like to take a brief look at the **expense side**. We pay a great deal of attention to keeping costs under control, a fact which becomes especially clear when we see that the cost/income ratio before goodwill amortization and adjusted for significant financial events dropped from 73.3% in 1999 to 69.2% in 2000. Total operating income rose 28% to CHF 36.4bn. Adjusted for significant financial events, the growth rate was a full 37%. Operating expenditure, meanwhile, also showed an increase of 28%, although this figure falls to 25% when adjusted for significant financial events. As with any services company, personnel costs typically represent a large proportion of the Bank's expenditure. These increased by 36% in 2000.

Compensation policies in a competitive international environment

You will doubtless have seen a variety of reports in the Swiss media concerning **the trend in personnel costs** among the big banks. A few of you have even written to me personally on this subject. I would like to take this opportunity to deal with the subject here in greater detail. I talked about the importance of bonuses in the financial services sector at last year's AGM. If you recall, I said that we are strongly influenced by what is standard practice in the international job markets. We have to follow the trend if we want to be regarded as a major-league global player, since it is the only way we can be sure of attracting the highest calibre of professionals available.

Allow me first to quote some figures to put things into perspective. The reported "massive" year-on-year increase of 36% does not take into consideration that the November and December figures also included the salaries paid to some 23,000 additional PaineWebber employees on our payroll. It is perfectly logical that an additional headcount of this size will lead to much higher personnel costs. Over the year as a whole, this increase represents an average of approximately 8% more employees. Moreover, we made a point of paying incentives to ensure that the top PaineWebber people stayed with us after the merger, and this pushed costs up further. All these factors mean that the 36% rise originally quoted thus turns out to be a considerably lower figure in like-for-like terms - slightly lower in fact than the 27% increase in Group profit.

UBS has had a performance-related remuneration system in place for some years now, under which employees' basic salaries only make up part of their total compensation. All UBS employees may qualify for a bonus. The total amount made available for bonuses depends on the Group's profit and the profits earned by individual business units. All bonuses are paid from this Group-wide pool, and the amount an individual employee gets depends on his or her performance. Employees who achieve or exceed their targets get a larger bonus, those who underperform their targets receive a smaller bonus or nothing at all. It follows that UBS employees at all levels have an interest in achieving high personal performance and ensuring a large Group profit. The higher an employee's bonus, the greater the proportion paid out in the form of UBS shares or options rather than cash. Employee shares are blocked for a period of 3 or 5 years, but they are taxed at their market value when allocated - at least in Switzerland. Employees therefore have a vested interest in the steady appreciation of the UBS share price. At the end of March 2001, employees held about 8% of the Bank's capital directly in the form of shares. They also owned



options on a further approximately 7% of its capital, bringing the total share of UBS capital in which UBS staff have a direct interest to 15%. We consider it a good thing for our employees to own such a large stake in our business, and we intend to promote employee share ownership further. We have decided last year that in future our employee stock option schemes will be designed in a way that costs do not go against P&L. This may result in a slight dilution (no more than 1-1.5 %), but this dilution will only be meaningful if the share price rises, which will benefit all of you anyway.

PaineWebber - a strategically important decision for the future

Our integration of the US-based wealth management firm PaineWebber in 2000 was an important investment in the Bank's future. It gave UBS a whole new dimension and brought us a big step closer to our goal of becoming the pre-eminent global, integrated investment services firm. UBS is now a truly global group in terms of both its clients and its staff. Only 11% of UBS employees were based in the Americas at the start of 2000, but this figure has now risen to 40%. The ratio of assets under management has changed even more dramatically. While US clients accounted for 4% of total assets before we acquired PaineWebber, they now make up 49%. As far as wealth management for private clients is concerned, the US is a very attractive market indeed, with especially high growth potential. Having a stronger foothold in this market thus bodes well for the Bank's future.

And while I am on this subject, I would like to express my sincere thanks to you, our shareholders. You approved this major investment at the extraordinary general meeting held last September. We made it clear at the time that we would make very careful use of the authorized capital you approved. Today we can report with a good conscience that we kept our word. Of the total authorized capital of CHF 380m, we only needed to use CHF 120m, or 12m new shares, to make up the portion of the purchase price that was paid in shares. In addition, we took 7m shares from the Group's treasury holdings and borrowed a further 22m in the market. We subsequently bought these shares back via market operations in order to minimize the dilution effect. Despite this restraint in the issuance of new shares, we succeeded in keeping our equity base at a healthy level - a target we had communicated to you and to our regulator, the Federal Banking Commission. The Tier 1 capital ratio was 11.7% at the end of the year, well above the range of 8.5-9% we predicted.

This US acquisition would have been much more difficult had we not listed our shares on the New York Stock Exchange in May 2000. It was only through the listing in New York that we were able to pay half the purchase price in UBS shares as a tax-free exchange, which is a much more attractive option than paying the full amount in cash. UBS shares are now a genuinely global investment: our shareholders can choose to be entered in the Swiss Share Register or its US counterpart. We are hoping that this will be a competitive advantage in the long term, since a globally traded share naturally enjoys higher liquidity.

Responsibility for the future

Now we have seen the figures, let us finish by considering a few other important aspects. 2000 was the first year we were able to leverage the full potential of the new UBS Group. The Bank's executive management and its staff as a whole should be proud that we completed not one, but two mammoth tasks in only two and a half years, namely merging UBS with SBC and then integrating PaineWebber. The new UBS is now a true heavyweight in the Swiss economy as an employer, taxpayer, lender and wealth manager. What is more, its international presence can no longer be overlooked. We are well aware that with this increased size comes added responsibility. Any major global player must assume global responsibility for its actions. This is why we had no qualms about signing the Global Compact initiated by United Nations General Secretary Kofi Annan. The Compact is an entry point for the business community to support the UN's principles and broader goals. In addition to protecting the environment, these include aspects such as respecting human rights and rights at the workplace. To underline that we take our responsibilities seriously, we have set up a Corporate Responsibility Committee. This committee, made up of members of the Board of Directors, the Group Executive Board and the Group Managing Board, will address issues relating to sustainable development. We will keep you informed about the Corporate Responsibility Committee's work in our regular reporting.

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Ladies and Gentlemen. 2000 was a milestone year in the history of our young Bank, from both the strategic and financial points of view. We are thus in excellent shape to face what the future holds, but we are also conscious of the fact that there is no place for complacency. Our global competitors will not be idle, and world economic growth has become somewhat more fragile recently. We will publish our first-quarter results on 15 May.



All that remains is for me to say "thank you" for the support you gave us in 2000. We will do everything we can to make sure we merit your trust and confidence in the future as well. I would also like to thank our clients all around the world for their loyalty and the many challenging relationships we enjoy with them. Last but not least, I must thank our employees, in all their varied functions and all the areas of our business. The Group's success rests on their commitment and professionalism.