Our shareholders' expectations — have we lived up to them?

Speech by Peter Wuffli, President of the Group Executive Board and Group CEO
at the Annual General Meeting of Shareholders of UBS AG on April 21, 2005 in Kloten

Ladies and Gentlemen
Valued Shareholders

As Marcel Ospel indicated earlier, we have chosen a common theme for our speeches today, namely "Our shareholders' expectations". He gave you the Board of Directors' perspective, and now I would like to examine various aspects from the executive management viewpoint.

On the face of it, the question is easy to answer. The Group's net profit of just over eight billion Swiss francs surpassed even the most ambitious expectations and was in fact the best result achieved by UBS since its formation in 1998. Good earnings quality and a positive growth outlook are helping to support the Group's impressive stock market valuation. Our market capitalization at the end of 2004 was up 9% year-on-year at about CHF 104 billion. This equates to thirteen times earnings and three times our shareholders' equity, representing a significant premium over our peers, especially those in Europe.

I will begin by going through a few components of the results before moving on to a question that is no doubt more important to you: How can we continue to meet our shareholders' expectations going forward? What can we promise, and what can we not?

An excellent showing in 2004

As I have already said, 2004 was UBS' best year so far. The Group's net profit rose by some 30% to CHF 8,089 million, with an increase of 29% to CHF 8,044 million recorded in financial businesses (i.e. excluding our industrial holdings). It is pleasing to note that, once again, all business groups contributed to this superb result. Here is an overview of the individual units' contributions before tax:

Wealth Management & Business Banking		*CHF 5,480 million*
Wealth Management	*CHF 3,435 million*	
Business Banking Switzerland	*CHF 2,045 million*	
Global Asset Management		*CHF 544 million*
Investment Bank		*CHF 4,540 million*
Wealth Management USA (excluding acquisition costs)		*CHF 762 million*

Our Annual Review contains a large amount of additional information on the individual businesses, including their market positions and geographical coverage, on products and services and on our staff, who are of course the driving force behind our success. Some of this information was presented to you in the run-up to this meeting, and I hope this gave you an even clearer picture of UBS in all its diversity.

Our bottom line is one thing, but we also keep track of many other key performance indicators. We have set ourselves the following long-term targets at Group level, and achieving them is part of our commitment to you: 15-20% return on equity after tax, double-digit annual growth in earnings per share, a cost/income ratio in line with our best competitors, and a clear up-trend in net new money in our wealth management units. Here is a list of impressive key performance indicators for 2004 (before goodwill and adjusted for significant financial events):

Return on equity after tax	*27.7% (2003: 20.5%)*
Earnings per share	*CHF 8.60 (2003: CHF 6.43)*
Cost/income ratio	*70.2% (2003: 73.2%)*
Net new money in the WM units	*CHF 59.4 billion (2003: CHF 50.8 billion)*

The *inflow of net new money at Group level* deserves a special mention here. Across the Group as a whole, clients entrusted new assets of almost CHF 90 billion to us last year. The total for the last four years is nearly CHF 300 billion. This is comparable to the entire client assets of two of Switzerland's larger private banks! Growth of this magnitude speaks volumes about the trust our clients place in us – much more so than extolling the virtues of our client-focused business model can. Overall, invested assets at the end of the year came to CHF 2,250 billion, more than any other financial group in the world, by a considerable margin. This gives us a solid basis for future profitability, especially since a significant share of our income is based on asset volumes.

The liquid funds generated by our positive business trend have been put to good use in your interests in a variety of ways. Our top priority is reinvesting in our business through organic growth initiatives and complementary acquisitions. We have invested substantially, for example, in expanding our European wealth management franchise, in US investment banking, and in the growth markets of Asia. We have also spent over CHF 1 billion acquiring more than half a dozen predominantly small-scale firms and activities.

Any spare cash above and beyond what is needed for our investments and to achieve our conservative capital ratios is used to buy back our own shares. We bought back shares to the value of about CHF 3.5 billion in 2004, and the Board of Directors is asking you to approve the cancellation of these shares today. This resulted in a further EPS concentration from which all of you will profit in that our earnings will in future be distributed among a smaller number of shares, increasing the amount to be distributed to each one of the shares.

Our professional endeavors, economic success, and good reputation have once again earned us a collection of prestigious awards. These are important to us and vindicate the efforts of our staff around the world as they constantly strive to be even better. However, we are also aware that the decisive factor in our success – our clients' trust – is something we have to earn on a daily basis.

What can we promise our shareholders?

I come now to the second part of what I have to say. I would like to explain how we can continue to live up to your expectations and safeguard your interests in the future, what we can promise and what we cannot. I must say this at the outset: we *cannot* promise you that our results will be as good every year, especially as regards the 30% rise in net profit. Profits in the financial services sector depend too heavily on the prevailing market trends for that. Nevertheless, there are plenty of promises that we can make.

Rigorous implementation of our strategy

Our Board of Directors and Group Executive Board work in close collaboration to develop, review, discuss and – where necessary – revise our Group strategy. I can assure you that we will continue to systematically implement the strategy that has been agreed and defined, while continually monitoring its progress and assessing it in the light of new challenges and opportunities.

Let me give you a brief example. We began the European Wealth Management Initiative in 2001 with the aim of stepping up our presence considerably in key European markets. It was our view that this was a good way to take advantage of growth opportunities. At the same time, though, we were seeking to defend our position in international wealth management, for instance in the event of asset outflows due to tax amnesties such as the one in Italy a few years ago. In the difficult environment experienced shortly after the New Economy bubble burst, it took a lot of courage to buck the industry trend and invest a sum running into the triple-digit millions every year in organic growth in an area of business where we knew our efforts would only pay off over the long term. Our starting point was very modest indeed. At the end of 2004, however, we were employing more than 800 relationship managers – a full 600 more than when the Initiative started in 2001 – to manage client assets in excess of CHF 80 billion. Net new money was up by about 30%, and we now rank among the top five domestic private banks in Germany, the UK, and Italy. This is not a story of straight-line growth. We have made a number of changes to the overall concept as well as to individual products and services over the past few years, and not all our plans came to fruition. For example, we have opened more new branches than we had originally envisaged. Including our latest acquisitions, we are now present in 43 European cities, compared with 15 at the start of the Initiative. The demands placed on our new staff ended up being significantly greater than we imagined to begin with. Nevertheless, we have held firm to our long-term commitment and our corporate objectives, even when faced with resistance both within UBS and externally.

This example illustrates the approach we take to implementing our strategy. We are flexible when it comes to incorporating new findings and adapting our structures, products, and services, but we stay true to our stated principles and do not stray from the course we have set at the first sign of difficulty. In this respect, UBS' outstanding financial health ensures that we can weather the storms that come our way.

Responsible risk management

Strategy plays an important role in shaping the Group's success. Another crucial factor, however, is how we deal with risk. Defining risk capacity, regularly monitoring the risks taken and to be taken, and setting up efficient control mechanisms are therefore vital. Striking the right balance between minimizing risks and seizing attractive business opportunities is another key consideration that needs our constant attention. Rest assured, ladies and gentlemen, that we devote a great deal of time and attention to such issues. The focus has traditionally been on credit and market risks. These days, however, we increasingly have to get to grips with operational risks as well. These are risks that arise from our day-to-day business, the actions of our staff, failure to comply fully with laws and regulations, and technical problems. The recent addition of the Group Chief Risk Officer function to the Group Executive Board reflects how seriously we take this new challenge. The CRO will be tasked with ensuring even more intensively going forward that we continue to deserve our good reputation as a company that keeps risks in check across a broad front and manages them in the interests of its business.

Commitment and dedication

The combination of a promising strategy, the rigorous implementation of this strategy, and exemplary risk management is not enough in itself to guarantee success. If we were unable to count on staff at all levels being committed to UBS and to you, our shareholders, I would not be in a position to make you any promises for the future. The fact that I can do this with a clear conscience, however, is proof that I have total faith in the professional skills, deep-rooted ethical standards, and attitudes and mindsets of UBS employees. We employ first-rate specialists at all levels of the Group, people with extraordinary dedication and talent, and thousands of staff in partly less glamorous positions, who all play their part in keeping our clients satisfied and supporting the diligent, targeted, and economical use of our resources day in, day out. I would like to take this opportunity to thank each and every one of them for their hard work – not only those in high-profile, front-facing functions, but also all those working behind the scenes to ensure that everything runs smoothly. I am sure you will join me in this, ladies in gentlemen, since our staff play such a major role in serving your interests.

While I am on the subject of commitment and dedication, I must of course not forget my colleagues on the Group Executive Board. Leading a complex, global company of this size requires teamwork. I know I can count on a dedicated, motivated team with an excellent track record working toward the common goal of making UBS even more successful than it is today. Each member of the Group Executive Board naturally has his own area of responsibility, but we are all mindful of the fact that together we are responsible first and foremost for UBS as a whole. This, too, is something you can see as a positive sign for the future. We are not a group of individuals operating on a turf mentality, but an integrated leadership team that pulls together in partnership.

Our aim: To be among the best – even when times are hard

This brings me to my conclusion. I have shown you what we can promise you going forward, and where our success will always be dependent on market mood. One thing I can say for sure, however, is that we will all do all that we can to be among the best in our chosen fields. That is the benchmark we set for ourselves, and again which you may measure our performance. I thank all of you for supporting us in our pursuit of this ambitious goal.