

# "You & Us" – a successful business strategy, highly qualified employees and an attractive corporate culture

Speech by Peter Wuffli, Group Chief Executive Officer, at the Annual General Meeting of Shareholders of UBS AG in Basel on April 19, 2006

Ladies and Gentlemen

Valued Shareholders

Marcel Ospel has already spoken to you about "You & Us", the central theme of our meeting today. He looked at what this means for our relationship with clients, investors and society in general. Now I would like to explain how we put this motto into practice every day at UBS with the help of our integrated business model, our motivated employees and our values.

To outsiders, the financial services industry may often seem dry and boring. That's probably because they associate it mainly with money and numbers. Now I have to admit that I am fascinated by numbers – especially when they are as good as they were this year. But there is of course a human side to banking: taking care of clients by providing them with services and financial advice. Financial services has always been a people business. And what better way to express this than with "You & Us"?

The slogan "You & Us" has so far been used primarily as the message of our global advertising campaigns. But this message is also very important and relevant internally, for our staff. Not only do our employees work in close cooperation and partnership with our clients across geographical and organizational boundaries in order to serve them and thereby create value. They are also clients and shareholders themselves. About 60% of employees hold either UBS shares or options. Around 6% of our shares are held by our staff.

However, before I go into details on this theme, I'd like to take a quick look at our results from last year.

## 2005 – a record year

As I said a few moments ago, UBS posted another outstanding result last year. Our net profit of 14 billion Swiss francs was a record. Of this amount, 3.7 billion francs came from the sale of our Private Banks & GAM, and 512 million francs from the sale of our industrial holdings.

Net profit from continuing operations in our financial businesses was also a record 9.4 billion francs, an increase of 18 percent. All businesses improved on their prior-year results. Here is an overview of individual contributions before tax:

<b>Global Wealth Management &amp; Business Banking</b>		<b>6,662 million</b>
Wealth Management	4,161 million	
Business Banking	2,189 million	
Wealth Management US	312 million	
<b>Investment Bank</b>		<b>5,181 million</b>
<b>Global Asset Management</b>		<b>1,057 million</b>

The wealth management business for both private and institutional clients was especially strong. Income from advisory mandates for corporate clients and institutional investors was also at a record high. Our huge investment in this segment has paid off: over the past four years we have hired 400 investment bankers, primarily in the United States, but also throughout the world. The favorable market environment, especially in the second half of the year, also contributed to the excellent results, as did the fact that we were able to report record credit loss recoveries.

In our Annual Review you will find more information about the results for specific businesses, so I will not go into any further details at this point.

Of course we look at more than just absolute numbers. We also assess what we have accomplished against the ambitious targets we have set and against which you must also judge us. As we have been steadily exceeding our performance indicators for some time now, we have decided to modify them for 2006.

Last year we achieved a return on equity of 27.6% versus 26.3% in the prior year. We are therefore raising our return on equity target of 15-20% to over 20% starting this

year, meaning that from 2006 onwards we aim to exceed 20% return on equity over periods of fluctuating market conditions. This number is to be used carefully, however. It is only meaningful over time and not in absolute terms, as a company's equity does not include goodwill from client relationships and human capital.

Basic earnings per share was 9.78 francs. This increase of 22% over the prior year is due in particular to increased earnings and a slight reduction (-2%) in the average number of shares outstanding following our share repurchases. Diluted earnings per share – our performance indicator from 2006 on – rose 23% over the prior year, from 7.64 francs to 9.39 francs.

The cost/income ratio of our financial businesses was 70.1%, which is a modest improvement compared to 2004. Although we invest substantial amounts of money in all our business areas for future opportunities, cost control is a key priority for management, even when market conditions are favorable.

In 2005 net new money at our wealth management businesses totaled 95.1 billion francs. This is 57% higher than the prior-year number of 60.4 billion francs, and is equal to an annual growth rate of 6.9% of the asset base at the end of 2004. Starting in 2006, we will report net new money for all financial businesses. In 2005 this amount was 148 billion francs. This is a record for UBS and represents an 80% increase over the 82.2 billion francs in 2004. (All of these figures exclude Private Banks & GAM).

#### **Key figures**

Return on equity <small>(from continuing operations, before goodwill)</small>	27.6 % (prior year 26.3%)
Earnings per share	9.78 francs (prior year 8.02 francs)
Cost/Income ratio	70.1 (prior year 73.2)
Net new money, WM businesses	95.1 bn francs (prior year 60.4 bn)

Investors also reacted very positively to the strong results. The UBS share price is at an all-time high and has outperformed most of our peers. This is a sign that we have been able to convince an increasing number of investors of the earning power and growth potential of our business model.

Why has this business model been so successful? Why has it proven to be the right model going forward? The right model both in turbulent and friendlier market conditions?

### **Our Integrated Business Model**

We have been working very hard over the past few years to implement our integrated business model. This business model means we present ourselves as a single firm to our clients. We provide them a single point of entry for all our products and services. At the same time we avoid duplication wherever possible in our internal structures in order to be as efficient as possible. We firmly believe that our integrated business model creates more value than our businesses would as stand-alone units.

Artificial demarcation lines between business groups are often an obstacle to client service or to capturing new business opportunities. Major private clients – often families with business operations worldwide – are becoming increasingly important for our company. And these clients usually want the bank's entire range of services to be available wherever they are in the world.

Intensive internal partnerships across geographical and organizational boundaries also allow us to use our intellectual capital more efficiently. This enables us to spot trends across business segments, develop new products and services and enhance the efficiency of our internal procedures.

The close collaboration between our investment banking and asset management units, for example, enabled us to satisfy the rising demand among our private clients for structured products and alternative investments. The result was additional earnings for all areas involved. The amount of assets that private clients have invested in alternative and structured products has risen in the last three years from 25 billion to 125 billion francs.

Another example of the optimization of our internal operations is our centralized finance and treasury services. All payment streams are now being collected within UBS and netted out before the bank turns to the money markets for financing.

## **"You & Us" – the quintessence of our corporate vision**

All this can work only if we have a common vision and belief that binds the entire company and each individual employee.

The French writer Antoine de Saint Exupery, an astute observer of man and nature, once wrote: a rock pile ceases to be a rock pile the moment a single man contemplates it, bearing within him the image of a cathedral.

We are not exactly building cathedrals, of course, but we want to have the same basic attitude when we serve our clients. "You & Us": when each individual focuses his or her entire energy on achieving the best possible results for both internal and external clients, no matter how complex the situation – only then can we be successful.

At the beginning of this year we revised and sharpened the focus of our vision and values and adjusted them to match our ongoing development. The purpose was to place the center of attention even more squarely on the client. The premise was that, based on the confidence we have developed over the past few years, we want to be the best global financial services company.

To reach this goal we have to continually renew and strengthen the recognition and trust from our three main stakeholders – clients, shareholders and employees.

Our highest corporate purpose is to advise and support our clients in the decision-making process surrounding their financial matters. When we do this well, we create trust and contribute to their financial success. The basis for this is a detailed understanding of a client's needs and characteristics. That's why over the past few years we have worked hard at setting up the four-step advisory process in our wealth management business. The first of these four steps is listening to and systematically understanding a client's needs, before we develop and recommend suggestions and then implement them.

This task requires highly qualified employees. We can recruit, motivate and develop the best employees only if we can offer them an attractive corporate culture, featuring a performance-based environment based on the will to learn and the desire for success in a spirit of partnership.

If we become the premier address for more and more talented people and continually expand our client base, we will grow our business and create value for you, our valued shareholders, through a higher share price and dividends.

### **Our core values form the basis of our corporate culture**

I would like to come back to this point about employees: they are the crucial factor in the competitive strength of a financial services corporation.

Last year we hired 2,000 new employees, 800 of whom were university graduates, a figure that is up 50% over the prior year. In Switzerland we are the employer of choice for university graduates.

In our recently modified "Vision & Values", we stated three primary core values that we believe make us an attractive employer for current and future staff.

The first of these values is the **Principle of Partnership**: relationships among our people as well as with our clients and employees are driven by the power of partnership. It requires commitment, respect, trust and mutual support. We encourage the free exchange of ideas, and demand teamwork. An essential precondition for this is intellectual honesty. Only when opportunities and challenges within a company are discussed openly and honestly, only when different opinions are accepted and constructively discussed, can we have the kind of creative and innovative working environment that is essential for top performance.

We look for initiative and entrepreneurial spirit from each individual. Decisions regarding recognition, compensation and promotion are based on the **Principle of Meritocracy**. The decisions are made on the basis of performance and contribution to earnings. To this end we have created a very progressive system for measuring and evaluating performance. It is applied uniformly across the firm, and we are continually enhancing it and adjusting it in line with new requirements.

Meritocracy also means that we coach our employees and invest in their professional development. UBS promotes talent through a comprehensive program of leadership development, mentoring, coaching and a series of educational measures. The process begins with a structured training program for our apprentices and new university

graduates. On the basis of standardized criteria we identify employees with a strong potential for development. Employees who move up to higher management functions including key positions or candidates for top management positions go through a leadership development process. They are supported by our Leadership Institute, which is a small, highly professional organization that reports directly to me.

At all levels of our company we apply the **Principle of Entrepreneurial Leadership**. It is the job of all managers to engender enthusiasm, energy and commitment. We want to create a climate of innovation and inspiration that will enable us to capture market opportunities and to adjust our solutions to changing market trends. The goal is to gain market share in our core businesses and to grow the company. The Executive Board defines accountability across the company. It also formulates a common strategic direction, encourages collaboration and knowledge sharing and creates a working environment in which entrepreneurial talent can unfold.

Last but not least, we are also aware that a company with global operations and clients from a wide variety of regions, cultures and societies can be successful only if the staff also reflects this **diversity**. We have devoted a lot of time and effort to this issue over the past few years. The diversity of our employees enables us to create many advantages. This means diversity in ways of thinking, in talents, in professional careers and experience. It also means diversity in ethnic background, nationality and gender. All this enables us to meet our clients' needs while better tapping the global talent pool and fostering a culture of openness.

We have 153 different nationalities among our staff and more than 20 different languages are spoken. The number of women increased again last year and now stands at 37%. I have no doubt that this diversity will be a crucial competitive advantage going forward. It will enable us to retain and build client trust in many different kinds of local markets as well as in an increasingly globalized business environment.

I have spoken to you today on how we put our motto "You & Us" into practice every day with respect to our clients, our staff and in management. I would like to conclude my remarks by adding my word of gratitude to the thanks expressed by the previous speaker. This thanks goes on the one hand to our employees working around the globe, who every day through their hard work and talent prove that UBS is a premier global

player, and on the other hand to you, our shareholders. Your trust and loyalty create the foundation for what we do. For you, "You & Us" means not just two individuals, but "All of us together." I thank you for your support and for the confidence you give us to continue on our common path. I can assure you that the Executive Board of UBS will not rest on its laurels. We will seize the opportunity that our current outstanding position has provided us for continued success going forward.