

# UBS – global and Swiss

Speech by Marcel Ospel, Chairman of the Board of Directors,  
at the Annual General Meeting of Shareholders of UBS AG in Basel on 15 April 2004

In ancient times, the bearer of bad news was routinely treated with contempt and derision and in some cases even put to death for his pains. I do not need to fear such retribution today I think, when I present our excellent results for 2003 and also propose a significant increase in your share of the fruits of this success.

Ladies and Gentlemen  
Valued Shareholders

A year ago the prospects for the economy were anything but rosy. At the time, however, I assured you that we would do our utmost to keep UBS firmly on the path to success. You will all undoubtedly be delighted that we have been able to achieve this goal in such an impressive manner. These are not only the results of our own efforts, of course. Renewed confidence among investors triggered a significant recovery in the markets. However, we were perfectly positioned to benefit from this recovery. Furthermore, our strategic focus on long-term success proved an invaluable asset. No-one can predict how the economic and political situation will develop, and it is therefore irresponsible when making key decisions to allow oneself to be influenced by the current situation. Our strategy of organic growth coupled with specifically targeted acquisitions in our core businesses is geared towards the long term. The same applies to our constant efforts to keep a tight rein on costs. What you fail to set aside during the good times is sorely missed when crises loom. At first glance, the public criticism we have received as a result of our decision to reduce headcount worldwide despite our good results is understandable. Peter Wuffli will say more about this problem in his speech. I would just like to say this: one of the most elementary obligations of corporate management is to keep the organization fit over the long term. Only by eliminating functions which are not required going forward can the necessary funds be made available for investment in areas which promise future growth.

We do not want to play off one of our core businesses against another or one region of the world against another, depending on what the current situation happens to be. We are an integrated Group which operates successfully throughout the world thanks to the co-operation between its various business areas. None of our businesses and geographical regions are as successful on their own as they are when interacting with the other parts of the Group.

That is why my speech to you today is entitled: "UBS – global and Swiss". This is not a question, but a clear and unambiguous statement. I would now like to examine these twin facets in more detail and explain what "global" means to us and why "Swiss" is such an important element of our concept.

### **UBS as a global financial services group**

"Global" means a variety of things to us: on the one hand it has the obvious geographic connotation. But we also see it as an expression of our integrated business model. UBS is a financial services group that aims to offer its clients all over the world the best available products from a single source – wherever they are and whatever the time of day. The individual business areas are networked – globally – to serve our clients all over the world.

For us, therefore, the word "globalization" is not just a hotly discussed issue in the current debate but the reality that we live on a daily basis. In fact, we live it very directly through the diversity to be found within our Group. People from all corners of the globe, with vastly differing professional backgrounds, hugely varied cultural origins and divergent values serve to generate a creative environment that is a source of innovation for UBS. It is precisely this diversity which enables us to serve our clients, whose ideas and requirements are of course every bit as varied, in a targeted way that brings success for both sides of the equation. In a great many cases, the global services of a global company need local implementation and adjustment.

We are of course aware that globalization is not always a harmonious process, despite what my comments on the advantages of the "globalization" within UBS

might perhaps suggest. Changes both large and small invariably lead to tensions, and there are always winners and losers. We believe, however, that the advantages of globalization outweigh the disadvantages, on the broader perspective as well. I would like to highlight at this point the positive contribution of the financial services industry to the progress of the global economy. Over the last ten years, the liberalization and resultant opening up of the financial markets has led to a strong inflow of private capital into the emerging markets, and thus supported their evolution towards increased prosperity. UBS is playing an active role in this evolution as the lead bank for a number of World Bank bond issues. However, we are also committed, partly in collaboration with the International Finance Corporation of the World Bank, to training financial specialists from countries who are only just beginning to put in place the necessary structures for a healthy and efficient financial system. In two concrete cases, we have organized programs of this nature which were co-financed by the Swiss Confederation. Furthermore, we have for many years been training representatives of central banks and multinational institutions in financial and capital management, among them over 100 participants from developing countries. We firmly believe that commitments of this kind represent a valuable contribution to the establishment of stable structures, something which is in the interests of international economic and social development.

I am not claiming that we support globalization for purely altruistic, social reasons, however. It goes without saying that it also offers advantages for UBS. Open markets enable us to establish a presence right around the globe, and are in fact vital to the success of our integrated business model. The fact that we can bring together highly qualified specialists from all over the world to work on special transactions, where they seek to come up with the best possible solution for the client, and the fact that we are in a position to place bonds, share issues and other financing instruments with clients in a wide variety of countries all over the world, represents an enormous competitive advantage. Our ability to truly be a leading major-league player is wholly dependent on our global presence. Our Annual Review, which you have all received, contains a number of real-life examples to illustrate this. I would like to single out one in particular: Vodafone in Japan.

Our specialists in London recognized that Vodafone could conquer the Japanese mobile telephony market if it could persuade various local railway companies to sell its stakes in Japan Telecom. From this basic idea, the complex concept drawn up by the UBS team passed through numerous key interim phases before finally culminating in the financing of the takeovers, which cost a total of 11.5 billion dollars. As part of the overall package drawn up by UBS, the bank placed a USD 5 billion equity issue in a number of different markets – a task achieved in a matter of hours thanks to our enormous placing power – and Vodafone gained control of Japan's third-largest mobile phone operator on friendly terms. UBS subsequently also advised Vodafone on the consolidation and restructuring of the Japanese companies acquired with a view to increasing their efficiency and competitiveness. Finally, UBS successfully lead managed yet another extraordinary transaction to raise USD 2.2 billion in cash and preferred equity.

Transactions of this kind, which are financially extremely attractive for UBS, would be inconceivable were we not able to count on employees with the widest possible range of expertise, a strong presence in various markets, effective collaboration between the relevant specialists and, last but not least, clients all over the world who trust UBS to invest their assets in such innovative financing projects.

Ladies and Gentlemen. UBS – and therefore you as its shareholders – profit from the global markets and from our global strategy. The main beneficiaries, however, are our clients. In line with our business model, we want to offer them the best available products and services from a single source. We have a huge concentration of know-how and products at our disposal. Clients, however, require just one point of contact – UBS – thus saving them both time and money. Swiss companies especially, who often find themselves limited by the small domestic market, can benefit from UBS's advice and support as a global financial services group. To pull another example from the Annual Review: we were instrumental in raising 1.75 billion Swiss francs in the capital market for the Canton of Vaud, the majority of which was required to re-capitalize the cantonal bank. The Swiss capital market could neither have raised nor coped with such a large amount.

A UBS team made up of some 50 specialists from French-speaking Switzerland, London, New York and Zurich made it possible to place the bond in the European capital markets, thereby ensuring that the Canton of Vaud received the funds it needed for the cantonal bank's financial restructuring quickly and on reasonable terms. A local financial institution would not have had access to the expert resources needed or the requisite placing capacity, and it would probably have been very difficult for a Swiss canton to entrust such a crucial, politically somewhat delicate transaction to a foreign bank.

### **UBS as a Swiss bank and Swiss financial services provider**

Ladies and Gentlemen. This brings us straight to the second part of my speech: UBS as a Swiss company. An accusation leveled at us on an almost permanent basis – either openly or by insinuation - is that UBS is actually not a Swiss company any more – and does not in fact wish to be. This is patently ridiculous. We want to be both: Swiss and global. There are a range of factors that demonstrate our strong Swiss roots. For example, our registered offices are in Switzerland, even though we would probably enjoy just as good if not better conditions in a different country. Our Board of Directors currently comprises six Swiss and three non-Swiss members, and after today's AGM is likely to consist of seven Swiss and three non-Swiss members. The Group Executive Board currently has five Swiss and four non-Swiss members, and after the election of Stephan Haeringer to the Board of Directors will have four Swiss and four non-Swiss members. We have some 400 branches and over 3.5 million clients in Switzerland. 150,000 small, medium-sized and large companies in Switzerland work with UBS, and we are the clear leader in the domestic mortgage market.

This strong position in Switzerland is important to us, and as a result we also work very hard not just to maintain it, but to expand it further where this makes sense for us and for our clients. Consequently, we cannot afford to be indifferent to the legal and political framework of our home country. The tax situation in Switzerland going forward, in other words whether taxes will remain favorable to moderate or will place an increasingly heavy burden on our business, will have an impact on any future expansion decisions. Now as before,

Switzerland's political stability and reliability are a strong reason for clients to choose UBS throughout the world. This makes these qualities very important to us as well. Whether we continue to enjoy liberal legislation which allows individuals and private enterprises scope to develop, or whether the State interferes more and more in the individual's personal sphere will not be without consequences for the future development of our business.

The marked influence of political developments on our business suggests that we also need to involve ourselves directly in domestic issues. Take, for example, the Bilateral Accords II. We refuse to accept the claim, currently being propagated on several fronts, that bank-client confidentiality is an obstacle to the Bilateral II negotiations. The Swiss system of differentiating between tax evasion and tax fraud reflects our understanding of the relationship between the State and its citizens. The State fundamentally trusts its citizens, and therefore does not immediately take the strictest line by classifying it as a criminal offense when a tax return contains certain irregularities. Wrongdoers are of course brought to account, and have to pay the taxes owed together with any applicable fines, but they are not treated as convicted criminals as a result. Interestingly Switzerland, with its trust-based system, enjoys an extremely high level of tax honesty. Other countries see this differently, and they are entitled to their own view of things. However, we also have the right to stick with our tried-and-tested system, all the more so since Switzerland's high level of tax honesty allows us to enjoy comparatively low tax rates. Switzerland's financial centre has made a huge concession in supporting the savings tax agreement with the EU, a concession for which Switzerland should now demand reciprocal gestures in negotiations on other agreements. It makes little sense for us to jeopardize the protection of privacy – a key issue for both Swiss and foreign clients alike – and thereby relinquish a competitive advantage, without careful consideration.

However, senior executives of UBS are actively co-operating within the key organizations of the Swiss economy – both Economiesuisse and the Swiss Bankers Association – also in matters which are not of direct interest to the financial center. In addition, many of our employees are active in political offices at cantonal and municipal level, and we also provide financial support to political

parties. Furthermore, members of the Board of Directors and the Group Executive Board are in regular contact with the Swiss federal authorities and with representatives of political parties. This has nothing to do with the frequent accusations of “cronyism”, but is intended to permit an exchange of opinions between experts. The politicians present their concerns and the challenges they face. We outline our needs with regard to international competition and demonstrate the problems that would arise in the event of any deterioration in conditions.

At times, it may be useful to highlight the benefits we provide for the general public. UBS is one of the biggest taxpayers in Switzerland, paying 712 million francs last year in direct taxes at the federal, cantonal and municipal levels. This was accompanied by indirect taxes and levies totaling some 450 million francs and some 1.1 billion francs of withholding taxes on client assets and UBS dividends. The high salaries we pay to employees at all levels of our bank compared with those in other industries – not just for top management but for the vast majority of our staff – provided the public purse with estimated tax revenues of additional 650 million francs last year via all three tax levying authorities. Last but not least, we of course make huge social insurance contributions. Salaries are wholly subject to state pension contributions (AHV), and we also contribute far more to unemployment insurance than is ever claimed by employees of UBS who have lost their jobs. Last year our contributions to the state pension scheme totaled about 400 million francs, while our contributions to unemployment insurance amounted to some 60 million.

Ladies and Gentlemen. Enough of figures. I hope you share my view that UBS is both a global and at the same time a Swiss company. Without our global presence we would be a regional bank - without the domestic Swiss market we would have no stable and solid base.

Last year's good results can certainly be attributed in part to the favorable conditions – in Switzerland as well –, to the positive performance of the international markets and to the improvement in investor sentiment. It would

not have been possible, however, without our business model, which has now proven its worth in both good and bad times, without the extraordinary individual and collective efforts of our staff at all levels and in all business areas, and no doubt also – as always – without that little bit of luck that everyone needs, even though it is sometimes said that fortune favors the brave. I would therefore like to take this opportunity to thank all our employees for their efforts on behalf of our clients and in the interests of our shareholders. I thank our clients – more than six million of them throughout the world – for their loyalty and for the interesting transactions that they regularly engage us in.

My thanks also go to you, our valued shareholders, for your continued commitment to an investment in UBS even in difficult times. Happily your patience has now been rewarded, and we are confident that you will have no regrets about maintaining your loyalty to us in the future. Last but not least, I would like to thank my colleagues on the Board of Directors and Group Executive Board. I can assure you that they are all focused on *one*, single goal: to keep UBS successfully on track over the long term, in the interests of our shareholders, clients and staff. There will be no shortage of commitment at any level of the organization, and provided fortune continues to favor us then a successful future is assured.