



## Standing the test in turbulent times

Speech by Marcel Ospel, Chairman of the Board of Directors, to the Annual General Meeting of Shareholders of UBS AG on 18 April 2002 in Basel. The spoken word prevails.

Ladies and Gentlemen  
Fellow Shareholders

A year ago, it was an agreeable duty for the Board of Directors and the Group Executive Board to deliver their annual report to shareholders. At the time I said, "It is always nice to look back on a successful year, and 2000 was just that in almost every possible way." As we all know, 2001 was different. It was a year marred by economic problems and veritable catastrophes. September 11, a day that shook large parts of the world to their foundations, will remain graven in our memories for a very long time to come. UBS has a strong presence in the United States, and we experienced the terrible events there first-hand.

They were events that changed the world and with it the economy as well. I am glad nonetheless that I need only qualify my last year's statement, not reverse it altogether. For there are certainly positive things to say about 2001. Peter Wuffli will be taking a closer look at our business performance in a few minutes. But let me say one thing from the outset: UBS is in comparatively good shape.

This prompts me first and foremost to say a word of thanks: I want to thank our 70,000 employees around the world for their tireless efforts in pursuit of our common goals. In a testing environment, they continued to deliver the best possible services to their clients. We are grateful, too, that we have so many loyal clients, and I thank them all for that continuing loyalty.

My thanks go, too, to my colleagues on the Board of Directors for their constructive contributions to shaping our company. I thank the Group Executive Board for working in partnership with the Board of Directors and for their many creative ideas for making UBS more successful still. Last but not least, I want to thank you, our shareholders, for keeping faith with us despite the somewhat turbulent events on the financial markets.

### **Success thanks to a proven strategy**

Our integrated business model proved its worth in the challenging economic environment we experienced last year. Our focus on wealth management and investment banking - the two most attractive segments in the financial industry - has paid off. The fact that we are able to build on a highly successful organization in Switzerland has contributed significantly to our success. We have repeatedly stepped back and scrutinized our strategy – but each time we have ended up confirming it anew.

The integration of PaineWebber, which we completed last year, has proved particularly rewarding. It has enabled us build a strong position in the most important market in the world. UBS is now truly on the map in the US. There the UBS brand stands for professionalism and service excellence. This gives us access to an attractive client base and is the foundation for continuing strong growth. It also makes us an attractive employer for highly qualified people.

Given the messages of doom and gloom emanating in recent months from the Swiss and international business community, it is both gratifying and reassuring to see that a global organization like UBS can weather turbulence with relative impunity. Why should that be so? “It takes bad weather to show the good seaman”, says an Italian proverb – a statement, I think, that applies equally well to the team that has steered UBS successfully through the recent more turbulent times. With a seasoned crew and equipment – in the shape of an effective strategy – to rely on, we were able to ride out the storm. In timely fashion, we had also defined an extremely prudent policy with regard to risk, a policy that has shielded us from significant harm. Risk-taking is part of our business. You

cannot be successful if you are not prepared to take on risks. What counts is being aware of the dangers, monitoring exposures carefully and continuously and reacting swiftly to any changes.

Ladies and gentlemen: the Board of Directors decided in December to entrust Peter Wuffli with the operational management of the Group as the successor to Lugman Arnold. This unexpected change fuelled speculation among the public that there had been differences of opinion regarding the strategic focus of the Group. Let me take this opportunity to stress once more that there are no divisions between the Board of Directors and the Group Executive Board with respect to strategy. Strategic issues are central to the future success of our company, and we deal with them together and on a consensual basis. This was the case in the past, and will remain so in the future.

### **Commitment to Swissair in the overall economic interests of the country**

The turbulent events surrounding the collapse of Swissair led to a great deal of unease and uncertainty among the public. We agreed, in an extremely critical situation, to participate in a rescue mission to save what could still be saved, namely the national airports so vital for our economy and at least one of Switzerland's airlines. With our commitment, we reached the limits of what we could reasonably justify to you, our shareholders. We acted speedily and unbureaucratically to help avert the worst. Regrettably, the call for help came far too late – namely at a time when Swissair was already insolvent.

Alberto Togni and Marco Suter as the two most senior representatives of our credit risk approval and control organization, Jürg Haller as delegate of the Group Executive Board for business relations with SAirGroup and Peter Kurer, UBS Group General Counsel, conducted the negotiations together with myself. Our actions and deliberations were driven by fundamental economic considerations. But we also shared a sense of commitment to our home market Switzerland. It is therefore our firm hope that our new national airline "Swiss" will turn out to be a success story. The fact that the launch took place on

schedule and the new carrier evidently got off to a good start is an auspicious omen.

## **Good corporate governance – nothing new for UBS**

Let me now turn to another topic, ladies and gentlemen. What is the state of corporate governance in our – in your company? Or in other words: who is responsible and accountable for what? How does our internal system of checks and balances operate? Under Swiss company law and based on our country's banking legislation, the Board of Directors and the Group Executive Board at UBS are clearly segregated bodies. True, they work very closely together as partners, but no member of one board may also be a member of the other. It is important to realize that the Board of Directors is not the purely "supervisory body" it is sometimes erroneously interpreted to be. The legislator vested it with a clear executive function, namely the "ultimate direction" of the company. Implicit in this are non-delegable responsibilities, notably relating to issues of strategic management of the Group, the definition of its structures and critical personnel decisions. The executive directors on our Board are routinely also involved in executive duties, for example in the risk approval and risk supervision process.

Good corporate governance is not a new concern for us. In 1998, when UBS AG was founded, we subscribed at the time to best international practice. Since then we have continually updated our corporate governance standards. As a result, we are in virtually full compliance not only with the regulations of the US Securities & Exchange Commission but also with the new rules drafted by "economiesuisse" and the Swiss stock exchange.

For you, as owners of our company, it is crucial to know that your interests here are paramount. Appointed on behalf of and at the responsibility of the Board of Directors as a whole, there are three committees in particular who act primarily as custodians of shareholders' interests. The *Audit Committee*, composed of three independent, non-executive directors well-versed in financial matters, is your guarantee for orderly accounting and for the supervision of the control mechanisms. The role of the *Nomination Committee* is to ensure, now and in future, that the right candidates are proposed for the Board of Directors and that the composition of this body responsible for overall stewardship is kept

under constant and critical review. And, last but not least, there is naturally the *Compensation Committee*. I am pleased that we have established and well-functioning structures in place in this respect. I can assure you: at UBS no salaries, bonuses, golden parachutes or pension fund payments are arbitrarily decided on. Nor, needless to say, does anyone have the power to fix his own compensation. Since 1998 we have published the total remuneration of the Board of Directors and members of the Group Executive Board and Group Managing Board in our annual report. We have disclosed how many shares this group of directors and senior executives holds in the company and the number of options and warrants allocated to them over time.

There are various reasons why we are against disclosing the individual remuneration of members of the Board of Directors and Group Executive Board, as is currently being demanded in various quarters. We are convinced that with the information we nowadays provide we have created the transparency which is important for you as shareholders. You need to know what systems and processes are in place for fixing that remuneration, and you also want to know how compliance with the mechanisms is monitored. Disclosing the remuneration of individual directors and executives, in those countries where it is practiced, has however the effect of inflating compensation. Moreover, the disclosure of significant differences in remuneration, however justifiable they may be in entrepreneurial terms, can destroy a team culture within an organization. For this reason, remuneration is also leveled out at the high end. But apart from any other consideration, we also view publication of this information as an unwarranted intrusion into the personal privacy of a small group of executives – with no commensurate benefits to justify it.

### **Senior management compensation – aligned with shareholders' interests and performance**

I would now like to explain the issues that are of importance for you with respect to the remuneration of senior executives at our bank. The compensation policy for members of senior management sets out to link their interests as closely as possible to the medium- and long-term interests of shareholders. We have therefore developed remuneration systems which encourage a

performance culture and an individual sense of responsibility and which contain a strong element of continuity. At the same time, we need to ensure that we can attract - and retain - the best people. We consequently need systems which provide incentives for highly qualified people – and that means here in Switzerland, too. Naturally, we also need independent arbiters within the Compensation Committee to ensure that the rules are applied correctly and that the objectives are thus achieved.

Total compensation consists of a base salary, which is fixed to reflect the duties, function and responsibility of the individual concerned and which as a rule remains constant. Senior management members additionally receive financial awards which depend on the business results of the company and the individual's personal contribution to those results. At the start of the year, individual function-related goals and objectives are defined and linked to the annual budget. In order to evaluate performance during the year, the budget figures are compared with the financial results actually achieved, with any variances being fully reflected in the compensation entitlement. When individual bonuses are fixed, further qualitative and quantitative performance indicators are taken into account.

### **Extensive ownership of US shares by senior management**

For executive directors and the members of the Group Executive Board, 50% of total compensation is payable in cash and 50% in UBS shares which are subject to a 5-year holding period. This is an important factor contributing to fostering a long-term performance culture in the interests of the company and its shareholders. The Compensation Committee can at its discretion award additional options, also subject to holding periods. The terms and conditions of these options may not be altered subsequently. In addition, executive directors and the members of the Group Executive Board are required to purchase – and to hold – substantial amounts of UBS shares. This ensures that our top executives have a significant portion of their earned assets in UBS shares. And there is a further aspect as well: Group Internal Audit, the unit independent of the

management, verifies that the awards decided by the Compensation Committee are in compliance with the regulations.

Ladies and gentlemen: as you see, the principles for senior executive compensation are decidedly performance-based and aligned with shareholders' interests, and the processes are clearly defined. The mechanisms in place also mean that when the business trend is poorer, the total compensation of senior executives is substantially reduced, last year by an average of 22% compared with the year 2000, and in some cases by as much as 40%.

### **Dealing with success and failure**

Fellow shareholders: are the amounts which result from our compensation policy ethically justifiable? I think we should ask a different question. We are in a business where very high rewards are paid to outstanding people and for outstanding performance. If we want to remain competitive internationally, we have to offer competitive compensation. If we do not, our skills base and professionalism will slowly but surely be eroded. That can be in no-one's interests. It is a pity that in the current debate surrounding isolated instances of management failure we are losing sight of the essentials. Success is the motor which drives the economy. We should not therefore regard with suspicion successful people who are willing and able to deliver superior performance.

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Ladies and gentlemen:

I have reached the end of my remarks. I am extremely optimistic about the future of UBS. We have a cogent strategy driving our business, a strategy which will open up attractive new avenues of development for us in the future. We have a Board of Directors and a Group Executive Board who complement each other well and are working together closely to take our company forward. We have outstanding professionals and managers at the top and we have an enormous pool of talented people at all levels of our organization. We have what it takes to continue to attract the best and brightest because we have a

credible strategy, a high-caliber client franchise, a reputation second to none and because we also pay competitive salaries. Last but not least, our company is financially robust – something which in these parlous times is by no means a matter of course. We shall do everything in our power to ensure that it stays that way.