



## 2001 – UBS on track despite a difficult environment

Speech by Peter Wuffli, President of the Group Executive Board, 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

In reporting on the progress of our business in 2001, on what we achieved and what our plans are for the future, I have to say in advance that I only bear overall operational responsibility for the final two weeks of the year. That presents no problem for me, however. As you know, under the integrated business model Marcel Ospel referred to earlier, we manage the Group in a spirit of partnership and as a team. As a long-standing member of that team, I fully endorse and share responsibility for the strategic focus and success story of our Group, and I look forward to the many and varied challenges involved in shaping the fortunes of our company in the future. You may rest assured that I will do my utmost to uphold your interests as shareholders, not least because your interests are identical with my own.

### **2001 in figures – a good result achieved under adverse conditions**

Let me begin by taking a look at the numbers. On 14 February, we sent you a shareholders' letter detailing our performance for the 4th quarter of 2001. More recently, together with the invitation to today's General Meeting, you received our Annual Review containing key facts and figures for the 2001 financial year. I shall therefore confine my comments to you today to some of the more salient aspects. Group profit at CHF 4,973 million was 36% lower than the record result we achieved the year before. Certainly, this is less than we might have hoped for. Yet it has to be seen in the context of an extremely difficult market

environment. In the event, our performance came in ahead of financial market expectations, in marked contrast to the results of many of our Swiss and

international competitors. The fact that we largely succeeded in holding our own despite these adverse conditions is a tribute to two factors – the broad basis on which our business is built and our balanced approach to risk. We suffered no significant credit losses, either from the collapse of Enron or as a consequence of Argentina's difficulties, again in contrast to many of our direct competitors.

The changing economic and financial landscape affected our business groups and units in differing degrees. The Private & Corporate Clients business within UBS Switzerland reported a record pre-tax result of CHF 2,147 million. This 8% increase was the fruit of risk-adjusted pricing, improved credit quality and tight control over costs. Private Banking, on the other hand, saw pre-tax profits drop 16% to CHF 2,703 million, a reflection of the weak securities markets and the investment costs associated with the build-up of our European wealth management business. Our continued focus on controlling expenses was unable to offset these effects. As expected, the financial results of UBS Asset Management do not yet reflect the successful turnaround, notably with respect to investment performance. At CHF 231 million, pre-tax profit was 28% lower than in 2000. The overall result for UBS Warburg was down 60% pre-tax to CHF 1,873 million. Within the business group, however, the picture varied very considerably. Corporate & Institutional Clients, UBS Warburg's actual core business, experienced a reduction of only 15% compared with its record year in 2000, an excellent achievement in an industry comparison. The overall result was adversely affected by UBS Capital, which in a very challenging market reported a pre-tax loss of CHF 1,032 million, compared with a profit of CHF 173 million the year before. Private Equity remains an important asset class for many of our private and institutional investors. However, we do not intend to increase direct UBS investments in Private Equity any further in future and instead will seek to reduce our commitment where opportune. For UBS PaineWebber, our primarily US-based private clients business, 2001 proved to be a particularly difficult year. It nevertheless delivered a pre-tax profit of CHF 258 million, outperforming most of its competitors.

One encouraging development across all business groups was growth in net new money. UBS attracted over CHF 100 billion in new assets during the year, an amount equivalent to the total invested assets of a sizable private bank. Despite in some cases substantial price losses occasioned by the dramatic falls on some stock markets, invested assets remained largely stable overall at their previous year's level.

Among the financial figures for 2001, I just want to say a word about personnel expenses. You will have noticed that – notwithstanding the poorer results – they have risen by 16% to close to CHF 20 billion, despite the fact that headcount was in fact slightly lower compared with year-end 2000. The reason is that the 2000 accounts only contained two months of salary costs for PaineWebber's approximately 25,000 employees, whereas the full costs are naturally now included. Factoring out these one-off influences, average variable compensation per head was down by approximately 23%, reflecting the poorer business results and the associated reductions in bonus and performance-related compensation.

### **Performance-related compensation at all levels**

Let me say a few additional words on the matter of personnel. Marcel Ospel has outlined the principles for senior executive compensation. Similar principles apply for employees throughout our organization. We are keen to encourage and reward performance, and we want our staff at all levels to identify with and take a personal interest in the success of our company. This is why all categories of staff are eligible for bonuses. The individual performance and contribution of each and every employee is reviewed annually in a clearly structured process, with employees themselves completing their own self-evaluation as part of the scheme. If a staff member achieves the agreed objectives, he or she qualifies for a bonus. The overall amount at the disposal of the individual business units is fixed by the Chairman's Office, based on the results achieved by the Group as a whole and the individual business groups. We offer our employees various equity participation plans as an attractive alternative to taking their bonus in cash. Where bonus awards are high, a portion is obligatorily paid out in shares or options, which are subject to holding periods of several years. In Switzerland at

least, the shares and options allocated are taxable at their value at the time of the award, so that employees have a very direct interest in seeing the share price rise. Their interests are thus fully aligned with those of our other shareholders. Starting this year, UBS employees throughout the world have been able to benefit from a program previously only available to UBS PaineWebber staff members. Employees have the opportunity to invest a certain part of their bonus or also of their normal income in UBS shares. For each share purchased, they receive two options entitling them to purchase further shares after a three-year period. We expect this to significantly increase the portion of our share capital owned by our employees and to strengthen their bond with the company.

### **Strategy and corporate culture as success drivers**

Ladies and gentlemen: so much for the past financial year. How are we to evaluate it? I believe we have reason to be satisfied although we would naturally have liked to present more robust figures to you. We have succeeded, in exceptionally difficult circumstances, in delivering a result that not only allows us to distribute an unchanged dividend to our shareholders but that also strengthens our equity base.

The current year will also bring its share of challenges. Yet we feel confident about the future. Our confidence is based on a firm belief in our strategy and the opportunities implicit in it. This strategy has remained unchanged for several years. Essentially it is this: in financially attractive growth areas like wealth management and investment banking we want to build and expand positions of global leadership, while at the same time remaining the leading bank in Switzerland. In the past, this strategy was driven principally by mergers and acquisitions. We now feel we are comfortably positioned in terms of our size and our focus. Accordingly, the emphasis in future is likely to be more on organic growth, although we will naturally continue to carefully review opportunities for acquisitions as and when they arise. Achieving profitable growth is one of the main priorities we have set ourselves within the Group Executive Board. The rapid expansion of our wealth management activities in the five key European countries - in the past 12 months we have hired some 300 new client advisors –

is a significant example. Our expansion in Investment Banking in the United States, where we increased our market share from 3.5% to 4.5% last year, is

another. One advantage here is that in our case the restructurings - which some of our competitors are still grappling with - are now largely behind us, leaving us free to concentrate on growth.

The corporate culture we have built up over a period of years has been a major success factor in our development. We are ready to embrace change within the Group, without casting aside what has stood the test of time. In our numerous acquisitions in recent years we have consistently combined the best that both sides had to offer. At the management level, too, we have been quick to take the experience of new partners on board, constantly benefiting from the fresh impetus it brings. Gaining new insights, learning from them and doing things better as a result has become a key characteristic of UBS. Developing this culture and its underlying values further, communicating them clearly and thereby sharpening the profile and identity of our Group, represent another priority, to which – working closely with Marcel Ospel – I intend to devote myself wholeheartedly.

### **Responsibility towards the community**

I am aware, however, that our responsibility is not solely directed at satisfying the needs of our clients and shareholders. We also have a duty to the community. A year ago, the Board of Directors appointed a “Corporate Responsibility Committee”, of which I myself am a member together with representatives from the Board of Directors, the Group Executive Board and the Group Managing Board - a clear indication of how seriously UBS is committed to this responsibility. In this first year, we dealt with ethical issues in a number of areas such as combating money laundering, the financing of terrorism and corruption. Naturally, the events surrounding 11 September were at the center of our preoccupations. In Washington in particular, we earned respect for our swift and professional support for the efforts to identify the financial sources of global terrorism. But I would also like to mention the direct assistance our organization provided on the ground in New York, for example by making office

space available, speedily and unbureaucratically, to companies affected by the calamity.

We addressed the difficult balancing act of rigorously identifying funds of criminal origin while preserving the interests of our clients, the vast majority of whom are honest citizens and have a legitimate claim to having their privacy protected. The leading role we took in formulating the "Wolfsberg Principles" to combat money laundering and have continued to play in their implementation is being increasingly acknowledged, not only in the United States but in Switzerland, too. Finally, we have begun to coordinate, and strengthen, the initiatives to foster diversity which have already been successfully launched in various parts of our organization. Equal rights and non-discrimination are just two of the aspects here. Last but not least, we want to give greater publicity to the numerous internal efforts undertaken to support and promote local neighborhood initiatives, and by doing so encourage other business units to follow suit.

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Ladies and gentlemen: in a booming economy with rising share prices, success comes relatively easily. The present situation demands somewhat more. It is therefore a source of satisfaction to us that in a recent survey our Group was ranked fourth among the most reputable global financial institutions behind Citigroup, JP Morgan and HSBC.

Fellow shareholders: a difficult year – and yet in many respects there are grounds for satisfaction and optimism, though not for complacency. I want to thank you all for the confidence you have continued to place in us, even in these less auspicious times. I want to thank our clients around the world for their loyalty, for the interesting relationships we are privileged to maintain with them and for the challenges they at times present us with. Last but not least, I want to thank the 70,000 employees - across all functions and business units - that make up our organization. It is their commitment and their professionalism that ultimately shape the success of our company. Shareholders, clients and employees provide

me, and all of us, with the assurance that we will continue to be successful in future.