Creating value for clients

Speech by Peter Wuffli, Group Chief Executive Officer, at the Annual General Meeting of Shareholders of UBS AG in Basel on April 15, 2004

Ladies and Gentlemen
Valued Shareholders

"The only constant in life is change" as the well-known saying goes. And we are reminded of this when we think back to last year's annual shareholders' meeting. At that time we reported to you on an extremely difficult year, on painful losses on the equity markets, on the almost complete dearth of business opportunities in many sectors and on the very low level that investor confidence has sunk to. The reversal of fortunes came faster than expected, and today things look very different. For the CEO, the task of reporting on the business year behind us is a pleasant one. But before I go any further, I would like to say that we do realize that our excellent results have not been received with unbridled enthusiasm everywhere. I will address some of the issues that have given rise to criticism later.

Overview of 2003

Let me turn first of all to our extremely pleasing results. Group net profit for the year came to CHF 6,385 million, the second best result since UBS was founded and only 18% lower than in the boom year 2000. These earnings are broadly based. The majority of business areas contributed to the good results with increases in revenues and reduced costs. This is associated with a sharp improvement in the business climate. The return of investor confidence exerted a positive effect on the financial markets, lifting the value of clients' invested assets, and boosting earnings along with it. In investment banking, attractive business opportunities were more numerous again.

Added to this, the various growth investments we had made paid off in 2003. We increased our market share in virtually all areas of business. In investment banking we reached critical mass also in the USA last year with a market share of over 5%. Today we rank fourth in the world in this highly competitive business. Our European wealth management business has made progress as well. In the five core markets of Europe that constitute some 80% of European private financial wealth we currently have client assets of nearly CHF 50 billion with net new money growth of close to 40%. Our position in Asia – another growth region – has improved substantially in the year under review. We have 40% of the market for Chinese equity placements with international institutional investors and are about to open a branch in Beijing.

Due to the favorable business environment and the strategic progress mentioned above our business groups and business units delivered impressive contributions to pre-tax earnings, as you can see from this overview.
[projection only]

Wealth Management & Business Banking		*4762 million*
Wealth Management	*2609 million*	
Business Banking Switzerland	*2153 million*	
Global Asset Management		*332 million*
Investment Bank		*3889 million*
Investment Banking & Securities	*4078 million*	
Private Equity	*(189 million)*	
Wealth Management USA (before goodwill and acquisition costs)		*664 million*

Wealth management – as it is known today – continues to play an important role in our firm's success. Clients have entrusted us with total assets of around CHF 2,200 billion, roughly 1/3 of these from the US, a further 20% from Switzerland and the remainder from the rest of the world. That is an increase of 172 billion versus a year ago, 62 billion of which is net new money in the real sense of the word. This is a sign of the enormous trust that clients have in UBS – a trust we honor by doing our utmost to protect our clients' interests.

Our letter to shareholders on February 10 and the Annual Review enclosed with the invitation to today's shareholder meeting have already given you a detailed account of our financial performance in 2003. I will therefore refrain from making any further commentary on the financial results here.

Success, ladies and gentlemen, is not only reflected in the financials. I am pleased to be able to report to you today on a whole range of important distinctions and awards we have received in the past months. The magazine Euromoney nominated us the Best Global Private Bank in January this year as well as ranking us first in the majority of individual business categories. Euromoney also chose our investment bank as the World's Best Equity House, and it was ranked top in global equity research by the Institutional Investor. A whole raft of publications awarded it the title Best Equity Derivative House, and Euromoney added the distinction of World's Best FX House. The fact that we were also nominated the World's Best Bank overall by the same magazine might seem conducive to complacency. But there is no cause to worry, ladies and gentlemen. Gratifying though we find this enormous recognition, confirming as it does that we are on the right path, we are, nevertheless, very aware that the trust our clients and shareholders place in us must be earned anew every day in a tough global marketplace.

Diverse challenges

I would like here to touch upon a number of special challenges that we are currently facing. I already mentioned that our good results were well received by the financial markets and also by the public at large, but that we were also the target of some pointed criticism.

Higher earnings versus job cuts

One of the criticisms leveled at us was directed at job cuts. Let me give you the figures. In 2003, we reduced our headcount by 5% overall or 3,132 jobs. Roughly half of this reduction was at Wealth Management USA, which saw the sharpest downturn in business after the collapse of the stock market bubble and shed 1,547 jobs. In Switzerland we reduced the payroll by a total of 1,310 spread over all business areas. The principal reasons for this were technological innovation and changes in client behavior. When more and more clients make their payments electronically today, the volume of processing handled by our payments centers goes down accordingly. In other areas as well, technology – as you are all very well aware – is increasingly replacing human work power. We regret this, but unfortunately we cannot ignore this development, with all its new demands and possibilities. The alternative would mean deliberately being more inefficient and expensive than our competitors – against our better judgment. We cannot justify such a decision: neither towards our clients, nor towards our shareholders or employees. It would mean being forced to make much more painful decisions at a later date when the earnings situation might be less favorable. If we have to eliminate jobs today because of restructuring, we are in a position to offer those concerned generous transfer and severance support. Here in Switzerland we have set up a special program called "Coach" which actively helps employees who have been made redundant to search for new jobs both internally and externally while their period of notice is running and for an additional two months after that. The possibility of compensation payments and early retirement is also provided for. Where possible, we seek to re-assign employees internally. Unfortunately, some cases of hardship do occur, but overall our experience has been that in most cases it is possible to find a reasonable solution for those concerned within an acceptable period.

We are aware that the general public finds it hard to understand how such high levels of profit can be squared with job losses. Internally, it is one of the most difficult tasks for managers at all levels of the organization to explain to employees that they are no longer required in their jobs. However, it is part of our entrepreneurial responsibility to keep the company fit and capable of making investments in the future which will create new jobs further down the line.

Management compensation: a bone of contention

Marcel Ospel spoke of the tensions caused by the conflicting identities of a global firm and our Swiss roots. These tensions are nowhere as visible as in the discussion over salaries. This is a subject that triggers strong emotions which I can well understand. I can assure you that heated debates on this topic also take place in our closer circle of family and friends. I will not go into all the arguments, a lot has been written on the subject lately. Let me just pick out two points that I hope will help to place the discussion on a more rational basis.

The compensation paid to our some 60 most senior executives depends on their performance and the results achieved. When the business year is over, the results achieved are compared with the targets that were set and the bonus will be determined – higher or lower – based on the extent to which the target has been reached. For the financial year 2003 performance and bonuses were high. However, many bonuses for the financial year 2001, for instance, were reduced by up to 50% versus the boom year 2000 due to the decline in earnings. What drives this system is the determination to encourage our employees and above all our senior managers to think and act entrepreneurially. It is by no means true, however, that our managers are motivated exclusively by what they earn. They enjoy their work and are able to motivate others. They are fully aware of their entrepreneurial responsibility and of not losing sight of the long-term success of the firm. Long-term entrepreneurial thinking is strengthened by paying a substantial part of the bonus in the form of blocked or deferred shares and options. On top of that, our managers are obliged to hold a multiple of their salary in UBS shares. We aim to promote entrepreneurship geared to growth at all levels. When we launch our uniform employee stock ownership plan in Switzerland in a new form later this year, we shall be particularly careful to ensure employees at all levels are able to participate in UBS's business success.

The size of the payments made, however, is also dependent on customary market practice in our industry, apart from the influence of results and personal performance. In the financial services sector the market for talent functions highly effectively and is liquid and transparent, both amongst competing firms and within those firms themselves. We manage the Group as one firm with a single management culture and a uniform compensation policy. Of our some 60 most senior executives, 40% are Swiss, 30% American and 20% British. We have Swiss working in New York, British working in Zurich and Americans in Asia. This global management crew has contributed importantly to the above-average results and strategic progress that we are privileged to report on today, particularly in comparison with our major global competitors. Would it then be right to pay this management crew less than our peers in the global financial services industry just because UBS's home base is in Switzerland? Or would it be fair to pay the Swiss members of the team less despite identical results and performance just because they live in Switzerland? Ladies and Gentlemen these are difficult questions, where global forces and the Swiss way of thinking and feeling are at loggerheads. Our answers to these questions are clear: as a Swiss company we want to be competitive in the global arena, with our products and services, for our international shareholders and investors and as an employer for top-line managers and specialists.

Client focus is the theme of the Annual Review

Let me conclude with the following remarks. The Annual Review, which you have all received, does not just report on a good business year. It also illustrates one of our central messages. The pictures tell three stories that have nothing to do with banking. They show what it means to listen carefully to clients, respond to their wishes, and do everything to help them attain their goals. A couple wants to build a unique tree house according to their very personal specifications. Architects and planners help them build their dream. A young woman is invited to a very special ball and wants to have an unusual gown made for the occasion. Fashion designers and dressmakers go to great lengths to find a special fabric that will make the dress a special experience. And finally, a passionate sailor who wants his vintage yacht restored to its former splendor. A whole team of specialists faithfully rebuild and renovate the original, hunt for old parts and recreate what is no longer available.

That's how we imagine the ideal service for our clients. Clients want to be understood, they are looking for someone they can talk to and trust, who will think about what they want and how they want to achieve it. Of course, not every banking transaction is a dream house, a model ball gown or a vintage yacht. But even in day-to-day business we want to serve the interests of our clients. This may just consist in offering products and services that are simple, understandable, reasonably priced and rapidly accessible. Responding to what the client wants, does not mean treating all clients the same. However, it does mean sounding out what their needs are and satisfying these needs. That's what we are working on at UBS. Thousands of our employees deal with clients face-to-face on a daily basis. They create the picture that is UBS. My thanks go to all of them for their unrelenting energy in serving our clients and for the contribution they make to our image. It goes without saying that in doing so they rely on the support of all those who work behind the scenes. They too contribute to the reputation of our Bank, and I also thank them for their efforts.

In particular I would like to thank you, our shareholders, for your loyalty and support, but also for appreciating our standpoint on the difficult issues I mentioned earlier. I hope you may also be able to create understanding for some of those considerations in your own personal circles. *One* thing you can definitely count on. My colleagues and I on the Group Executive Board will do everything in our power to make UBS even more successful and take it to the top of its league. That is in all our interests.