



## UBS on course despite rough weather

Speech by Peter Wuffli, President of the Group Executive Board, at the Annual General Meeting of Shareholders of UBS AG in Zurich on 16 April 2003

Ladies and Gentlemen  
Valued Shareholders

In the rough weather conditions described by Marcel Ospel just now, virtually all the factors that our business depends on conspired against us to make a good performance almost impossible. The hoped-for upswing in the economy failed to materialize. The equity markets plunged causing painful losses in asset values. Insolvencies in the capital and credit markets have reached record highs. Private and institutional investor assets have been destroyed on an immense scale in the world's financial markets. Investor confidence is at a low ebb and the entrepreneurial initiative that fuels restructuring, as well as mergers and acquisitions has dried up. After the exuberant bull market that ended near the turn of the century, many indicators have retreated to levels last seen in the mid-nineties.

As I proceed to comment on our results, I would like first of all to show you how our business model has proved its worth in testing times and demonstrated the necessary robustness. In the second part I would like to describe how, even in inauspicious times like these, opportunities can be grasped and exploited.

### **2002 results and the operating environment**

On 18 February we reported to you in detail on our business progress and results in our 4<sup>th</sup> quarter Letter to Shareholders. Together with the invitation to today's annual general meeting you received the Annual Review, which provides comprehensive information on 2002 performance. I can therefore focus on the essentials of our business performance here.

In shrinking markets the most demanding task of management is to reduce costs in line with lower earnings. We managed this very well, considering that there is little flexibility for reductions in major areas of our cost structure. As a result, earnings were down by 9% and costs by 7%, after adjustment for exceptional items. The pre-tax result was consequently only 13% lower. Although a decline in earnings is an unsatisfactory result, the operating performance underlying this figure is considerable. This was achieved mainly by a timely and focused reduction of excess capacities as economic conditions began to weaken, but also through the systematic and targeted exploitation of opportunities to improve efficiency, the rigorous control of general and administrative costs and by finely tuned adjustments to variable compensation components in line with results and performance as well as with the market environment. Even if it was impossible to avoid shedding jobs completely, this disciplined approach did allow us to do without the kind of sweeping job reduction programmes that have unfortunately become commonplace in our industry of late, along with their attendant destabilizing effects.

Apart from attention to costs, there was also a strong need for risk management in this environment. I am pleased to report therefore that our cautious and rigorous credit risk management culture, built up over a number of years now, demonstrated its merit and protected us from nasty surprises. The volume of non-performing loans declined further and allowances and provisions for credit loss were well below the level we had expected on the basis of our statistics. Expenses in the other risk categories also remained in the customary magnitude. However, risk-taking continues to be an important part of our business, especially in this kind of environment. We aim to maintain our position as easily the largest lender to the Swiss corporate market in the future and will also continue to seek and take on rewarding risks in the capital markets and trading.

The development of group profit must therefore be viewed against the backdrop of declining revenues, controlled costs and a risk management which was largely free of unpleasant surprises. Our net profit after tax of CHF 3,535 million was impacted by a number of significant financial events: non-recurring gains from the sale of Hyposwiss and the Hirslanden Group of private hospitals, coupled

with a non-cash writedown of CHF 953 million for the PaineWebber brand in our balance sheet.

### **Diverse developments in the business groups**

Let me touch briefly on the course of business in the various business groups. Within *UBS Wealth Management & Business Banking*, Private Banking saw a 19% fall in pre-tax profit due to the negative developments in the markets, while Business Banking Switzerland registered a 32% increase in earnings. The main reason for this lies in the significantly lower writedowns on loan exposures, reflecting the Group's systematic efforts to clean the portfolio of problem loans in recent years. The business group as a whole contributed CHF 4,741 million before tax to Group net profit.

*UBS Global Asset Management* was particularly hard hit by the weakness of securities markets in 2002. Invested assets were down sharply as a result of the precipitous falls in equity prices and this led to significantly lower asset-based fee revenues. The business group's contribution to Group net profit before tax is CHF 187 million.

At *UBS Warburg* the Corporate & Institutional Clients unit reported pre-tax earnings of CHF 3,129 million. With a decline of only 17%, this result compares very favourably with many of our competitors. Whereas Investment Banking and Equities suffered from the difficult conditions in the markets, Fixed Income, Rates and Currencies produced very good results. UBS Capital was affected to an above-average extent by the depressed state of the economy and remains a burden for the business group. Significant write-downs on its investment portfolio resulted in a pre-tax loss of CHF 1,761 million, dragging the business group's overall result down to CHF 1,368 million.

*UBS PaineWebber* reported a pre-tax loss of CHF 566 million for the year. Excluding acquisition costs and goodwill amortization, there would have been a pre-tax profit of CHF 632 million. The weakness of the US dollar versus the Swiss franc adversely affected the reported result. In dollar terms the figure would have been 3% better than in the previous year.

### **Success of our growth strategy**

So much for the market environment and our results. Let me turn to the second aspect I proposed to look at. What progress have we achieved and what opportunities have we grasped? I would like to pick out two points here. One is the success we have had in implementing our strategy of organic growth; the other is the progress made in shaping our corporate culture.

Marcel Ospel has described our strategy: Our global platform permits us to grow first and foremost organically. This does not exclude small or mid-sized acquisitions, if they are a good strategic and cultural fit with the existing organization, are financially attractive and thus accelerate our organic growth.

In terms of organic growth we have made major progress in numerous areas in the year under review.

In European *Wealth Management* we increased the number of offices in Germany, Italy, France, Spain and the United Kingdom from 19 to 25. Over the last two years we have trebled the number of client advisors, reaching a total of some 550 by the end of 2002. Net new money has developed very satisfactorily and our strategy has affirmed its value, particularly in connection with the tax amnesty in Italy where we were able to retain roughly half the volume of repatriated funds with our organization.

In the USA as well, *Wealth Management* has been successful. UBS PaineWebber has increased its market share from 12 to 14% since its integration in the UBS Group – a major success considering the stiff competition for the affluent clientele. With 9,000 financial advisors and 365 offices, UBS PaineWebber is an important player in this business in the US.

While many competitors severely cut back their *Investment Banking* operations once the boom was over, we have recruited any number of top-line professionals especially in the US in the last three years and have continued to grow our market share in America substantially. While fee income in the investment banking industry in general has shrunk by 34% since 1999, we have raised ours by 16%. In fixed income operations as well, a particularly attractive business in the current

environment, we have built leading market positions in recent years, for the most part organically.

We are also looking for growth in *Asia*, particularly in China, where we have created good prerequisites for future business opportunities.

For success we also need an engaging corporate culture, in addition to operational management that is driven by clear strategies. Our corporate culture is shaped by the people who work for UBS, with their professional abilities and experience, their values, beliefs and conduct, as well as their loyalty to the company. Corporate culture is not a fair weather concept. On the contrary: It is rather in difficult times that the need for identity and solidarity is particularly strong.

### **Corporate culture with clear values**

In the year under review it was an important priority for corporate management to sharpen the profile and identity of our Group. This has been achieved on the one hand by broadening our group management and bringing in new and younger blood; on the other, by rethinking our next layer of management. Together with the Group Executive Board and Board of Directors, the 54 members of the Group Managing Board perform important management functions within the Group. Of the 66 members of the Group Managing Board, Group Executive Board and the executive members of the Board of Directors, 40% have been in a senior management position with UBS or one of its predecessor firms for over 10 years, 42% between 5 and 10 years, 13% between 3 and 5 years and only 5% less than 3 years. In Investment Banking as well, where staff turnover is generally higher, over half of the 36 senior managers have been with the firm for more than 15 years. This high degree of continuity promotes a partnership approach in the way people in the Group think and act: an important cornerstone of our integrated business model. Promoting teamwork at all levels of the organization with the aim of giving our clients a feel for the diversity of our Group, is also one of the major priorities for all our managers.

In the year under review we reformulated the principles by which we endeavour to live and act. Here are just a few of these values for action:

*Quality and performance are decisive.* Our focus is the client, for our clients' success is our success. Entrepreneurial leadership that engenders enthusiasm and commitment and encourages creative collaboration enables us to capture opportunities and succeed in the marketplace.

*We create responsible relationships.* Relationships among our staff members as well as with our clients are driven by the power of partnership. The power of partnership requires involvement, respect and mutual support, as well as the free exchange of ideas. Meritocracy calls for entrepreneurial spirit and initiative, inspiring each individual to levels of performance beyond what they might believe possible. We are a member of the global community and behave as a responsible corporate citizen, both as a company and as individuals.

*Our conduct is guided by high ethical standards.* The integrity of our firm and every one of its employees is key to preserving our most valuable asset, our reputation, and hence to achieving long-term success. Respect for our clients' right to privacy is a central concern for us. And last but not least, we embrace and support diversity within the Group. Diversity of cultures, perspectives, skills and experiences come together to form a whole that is much more than the sum of its individual parts.

Ladies and Gentlemen. I have no illusions on this. We don't always succeed in reaching these ambitious goals, or not always completely. But we are firmly committed and are working hard to attain them. My thanks go to all our employees around the globe, in all their different functions and at all levels of the organization, for their contribution to our shared success. I am also grateful to you, our valued shareholders, for the consideration and understanding with which you support our efforts to lead UBS to a successful future.