

# Shareholder's Information

Basel, 4 March 2003

## **Operating results down due to market conditions Balance sheet adjusted for goodwill write-off**

Dear Shareholder

The 2002 financial year was characterised by a number of exceptional factors. In the Shareholder's Information of 23 August 2002, we announced that goodwill on the business units acquired was to be revalued at the end of the year. Due to a revaluation necessitated by market conditions, and after consultation with the statutory auditors, the Board of Directors has decided to write off just under 90% or CHF 289 million of the goodwill position in the balance sheet. This write-off, together with the one-off restructuring costs of CHF 52 million arising from the integration of the Rabobank units, outweighed the positive operating results and led to a group loss of CHF 316 million. The reported loss is largely a reflection of the accounting rules applicable to the recording of the Rabobank transaction. When the units were incorporated into the bank's consolidated balance sheet, shareholders' equity increased by CHF 328 million in the form of goodwill. This write-up was added directly to the balance sheet. However, the subsequent valuation adjustment of some 90% or CHF 289 million has to be reported via the income statement.

Even after this adjustment, Bank Sarasin & Co. Ltd's shareholders' equity position remains excellent and exceeds the legally required level by CHF 396 million or 135%. At the end of 2002, the Tier I ratio was an excellent 23.7%. Each class B registered share accounts for CHF 1,212 of shareholders' equity.

Operating performance in our three main sectors was affected by conditions in the financial markets and was in line with the sector average, with operating profit down by 39% to CHF 84 million. Net commission income – our main source of revenue – remained relatively good, however, at CHF 308 million (-12%). The cost-cutting measures introduced enabled Sarasin to reduce general administrative expenses by 14% and personnel expenses by 8%.

The Board of Directors will propose a dividend of CHF 25 per class B registered share to the General Meeting of Shareholders on 5 May 2003.

## **Integration of the Rabobank units completed successfully**

The past year was eventful and challenging in both strategic and operational terms. On a corporate level, the strategic alliance with the Dutch Rabobank Group represents a groundbreaking decision for our bank. The former Rabo Robeco Bank (Schweiz) AG was merged with Bank Sarasin & Co. Ltd, and Rabobank's international Private Banking units in Hong Kong, Singapore, Luxembourg and Guernsey were integrated as subsidiaries of the Sarasin Group. The client base doubled as a result, the different product profiles and settlement processes had to be harmonised and the new

international locations had to be incorporated into the Sarasin Group's management structure. We successfully handled what was for us a new integration task, and were able to complete it ahead of schedule at the end of September 2002. Even though operations of this kind do entail – one-off – restructuring costs, we can be confident that the integration has created important synergies for successful business development in the years to come.

### **Operating income comparatively solid**

Operating performance was dominated by the ongoing weakness of the financial markets. Against this backdrop, 2002 proved to be one of the most difficult years ever for the private banking industry as a whole. For the second year in succession there were sharp corrections in the equity markets. After falling 21% in 2001 (measured against the SMI), the equity markets continued their downward trend in 2002 with a further 28% slump. There was a mood of dejection both in the markets and among our clients which in some cases was even worse than the economic reality. Low transaction volumes and an increasingly defensive orientation in client portfolios exacerbated the extremely difficult situation.

Although our business performance was also not unaffected by these external influences, given the overall conditions we can nevertheless look back on a comparatively robust operating performance in our core business. While total operating income fell by 18%, in line with the sector average, income from asset management and consulting experienced only a relatively small drop of 12%. In our view, this result is testament to our efforts to work consistently, irrespective of difficult external influences which are basically beyond our control, to improve the range of products and services we offer for the management of the client assets entrusted to us. We have expanded our range of innovative investment fund and alternative investment products, consolidated our position as market leader in the field of sustainable asset management, established new, theme-driven asset management styles and, last but not least, placed our international Private Banking activities on a broader footing. These efforts have been successful and have met with recognition. The world-renowned rating agencies STANDARD & POOR'S and LIPPER honoured our range of investment funds and our track record in asset management in the "Fund Awards 2003".

The drop in client assets largely mirrored the overall performance of the financial markets. The negative market performance was the main reason behind the 16.6% fall, which was only marginally offset to the tune of 0.5% by the increase in new money. Client assets thus fell by 16.1% to CHF 46.4 billion across the group as a whole. It is encouraging to note that an increase of 2.8% (CHF 340 million) in the inflow of new assets was nevertheless recorded in the institutional clients area, and a substantial increase of 7.6% (CHF 474 million) in the Investment Funds Division. However, the Private Banking Division posted a loss of 1.3% (CHF -491 million). After a two-year downtrend in equities and record low bond yields, stockmarket investments are having difficulty finding active supporters.

The other revenue sources – interest, trading and other ordinary income – were hit even harder by the weakness of the financial markets. The fall in money market interest rates to a historically low level and the fact that our balance sheet structure is highly dependent on the money markets led to a 17% drop in interest income to CHF 73 million. Net income from trading operations also posted a higher than average fall of CHF 10 million (-23%), although it must be borne in mind that this figure was depressed by losses of just under CHF 3 million on trading positions in our own shares. Other ordinary income also had a major influence on operating income over the past year, with the valuation adjustments for financial assets having the most significant impact. Although from an economic point of view the performance of our

financial investments was only slightly negative at -0.55%, our use of the lower of cost or market price principle prescribed for reporting our financial position led, on the one hand, to corresponding write-downs on our equity investments, while on the other, the unrealised gains on bonds do not appear in the income statement.

### **Cost-cutting measures begin to take effect**

On the cost side, we have initiated a range of measures to adapt our cost structure to the new environment. Although most of the effects will only become apparent in 2003, the cost management activities did result in a CHF 35 million (-10%) reduction in operating expenses in the year under review. Personnel expenses were reduced by just under CHF 20 million (-8%) through a combination of lower bonus payments and downsizing. The number of staff fell by around 65 compared with the previous year from 1,346 to 1,281, not least due to the successful integration of the Rabobank units. General administrative expenses, which in comparative terms are quicker and easier to control, fell more sharply by 14% to CHF 93 million.

Total operating profit fell to CHF 84 million, but the decline of 39% was in line with the sector average.

### **Valuation-related influences have a huge impact**

On the one hand, depreciation and write-offs on fixed assets fell sharply by 26% to CHF 22 million. Alongside the general reluctance to engage in new investments, it is also important to note that the fixed assets of the merged former Rabo Robeco (Schweiz) AG, which were no longer required, were booked to restructuring costs in the year under review as a one-off charge. On the other hand, we recorded ordinary depreciation on goodwill and other intangible assets, which amounted to CHF 9 million in 2002, separately for the first time. At just under CHF 4 million, the write-off over ten years of the residual goodwill on the former Rabobank Private Banking units (after taking account of extraordinary write-down - impairment) made a significant contribution to this figure. There was also a sharp increase in value adjustments, provisions and losses, which had a negative effect of CHF 21 million on the income statement. In addition to the cautious valuation of potential damages from various operational and process risks, there were also individual value adjustments totalling some CHF 8 million for credit risks. The credit risks identified relate to a very small number of individual credit commitments, and our investigations have shown that our overall credit exposure currently has a low risk profile.

### **Exceptional factors: 2002 income statement affected by impairment and restructuring costs**

The strategic alliance with the Rabobank Group did not just send out signals on a corporate level, it also had a huge impact on the annual results for 2002. The integration of the Rabobank Group's Private Banking units took the form of a contribution in kind, and was financed by a capital increase achieved through the issue of new Sarasin shares. The key issue with regard to the company's valuation was defining a suitable exchange ratio between the value of the former Bank Sarasin & Co. on the one hand and that of the former Rabobank units on the other. On the basis of a fairness opinion from PriceWaterhouseCoopers, the parties agreed on a value component of 28% for the Rabobank units, corresponding to 171,553 Sarasin class B shares. Using the stock market valuation at the time of the General Meeting of Shareholders (CHF 3,021 per class B registered share); this resulted in a capital increase of CHF 518 million.

With the Rabobank units' equity of CHF 190 million, the recording of the transaction at group level created additional goodwill of CHF 328 million. As we have all seen, the banking sector experienced another major fall in value on the financial markets in the second half of 2002, necessitating a revaluation of the goodwill figure. The revaluation of the acquired units resulted in a goodwill adjustment in the form of a write-off of CHF 289 million, and thus had a massive impact on the income statement for 2002, as Swiss accounting rules require that goodwill be written off via the income statement. However, the non-recurring nature of this goodwill write-off will significantly reduce the burden on the income statement in future years.

The restructuring costs of CHF 52 million arising from the integration of the Rabobank units and the social costs of the downsizing measures also impacted strongly on business performance in 2002. These are one-off costs, however, and will be offset by cost advantages that will begin to take effect from 2003 onwards.

### **Outlook**

After the exceptional transaction-related tasks of the previous year, Bank Sarasin & Co. Ltd will once again be able to devote all its efforts to its core operating business. Our assessment of the prospects for the 2003 financial year remains cautious, however. The equity markets have fallen by 10% in the first two months of the current year alone. In view of the subdued state of the economy and the global political situation, we expect conditions to remain difficult.

The possibility of a further decline in operating income due to falling client assets and reduced transaction volumes cannot be ruled out. We must therefore trim costs wherever possible and target our investment activities on the expansion of our strategically important competitive position.

We are convinced that we hold consistently good and in some cases even excellent positions in our target markets, which we will work even harder to maintain and expand over the coming year. The difficult year in 2002 has put us in an even stronger position to achieve these objectives.

### **Bank Sarasin & Co. Ltd**



Dr. Georg F. Krayer  
Chairman of the Board of Directors



Peter E. Merian  
CEO

## Key Data for the Sarasin Group

As at 31 December		2002	2001	Change
	1,000 CHF		pro forma	%
<b>Group income statement</b>				
Operating income		401,265	489,791	-18.1
Operating profit		84,032	137,813	-39.0
Group loss/profit incl. minority participations		-315,563	92,122	-442.5
Cash flow		59,045	114,618	-48.5
<b>Ratios</b>				
	%			
Cost/income ratio		86.8	79.3	9.5
Cost/income ratio before deduction of goodwill		84.6	78.0	8.5
Return on equity (ROE)		-33.8	10.7	-415.9
Return on equity before deduction of goodwill and impairment		-1.9		
Return on equity before deduction of goodwill, impairment and restructuring costs		3.7		
<b>Key data per class B registered share</b>				
	CHF			
Loss/profit per share		-515.9	149.6	-444.9
Dividend		25.0	79.0	-68.4
Cash flow		96.5	187.4	-48.5
Stock market price on December 31, 2002		1,538.0	3,225.0	-52.3
Market capitalisation	billion CHF	0.9	2.0	-55.0
Pay-out ratio	%	n.a.	52.9	
<b>Assets under management</b>				
	billion CHF			
Client deposits		46.4	55.3	-16.1
<i>of which private clients</i>		30.2	37.0	-18.4
<i>of which institutional clients</i>		10.7	12.1	-11.6
<i>of which investment fund assets</i>		5.5	6.2	-11.3
Workforce	adjusted for part-time working	1,281	1,346	-4.8

## Group Income Statement (non audited figures)

For the year ended 31 December

	2002	2001	Change	
	1,000 CHF	pro forma		%
<b>Operating Income</b>				
Interest income	240,146	389,464	-149,318	-38
Interest expenses	-167,172	-301,994	-134,822	45
<b>Net interest income</b>	<b>72,974</b>	87,470	-14,496	-17
Net commission income	307,903	351,772	-43,869	-12
Net income from trading operations	34,602	44,764	-10,162	-23
Other ordinary income	-14,215	5,785	20,000	346
<b>Total operating income</b>	<b>401,264</b>	489,791	-88,527	-18
<b>Operating expenses</b>				
Personnel expenses	224,248	243,638	-19,390	-8
General administrative expenses	92,984	108,340	-15,356	-14
<b>Operating profit</b>	<b>84,032</b>	137,813	-53,781	-39
Depreciation and write-offs on fixed assets	22,336	30,278	-7,942	-26
Depreciation of goodwill and other intangible assets	8,661	6,167	2,494	40
Value adjustments, provisions and losses	20,549	9,301	11,248	121
<b>Profit before extraordinary items and taxes</b>	<b>32,486</b>	92,067	-59,581	-65
Taxes	-9,338	-29,251	19,913	-68
Extraordinary income/expenses	2,728	29,305	-26,577	-91
<b>Group profit prior to extraordinary items</b>	<b>25,876</b>	92,121	-66,245	-72
Impairment IPB Rabobank	-289,062	0	-289,062	n.a.
Restructuring costs	-52,377	0	-52,377	n.a.
<b>Group loss / profit</b>	<b>-315,563</b>	92,121	-407,684	-443
<i>Minority participations on loss/profit</i>	<i>-43</i>	<i>626</i>	<i>-669</i>	<i>-107</i>