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Bank prepares to hike pay 50% to keep staff

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UBS, the European bank with the biggest losses from the financial crisis, plans to boost salaries for senior bankers by an average of 50 per cent to stem defections, three people with knowledge of the matter said.

The salary increase would apply to managing directors in investment-banking, fixed-income and equities worldwide, said the people, who declined to be identified because the matter is confidential. Less senior bankers, including associate directors and executive directors, may also get raises, they said.

UBS cut its bonus pool by 78 per cent in January after amassing the biggest loss in Swiss corporate history in 2008. The bank came under pressure from government officials to slash variable pay after the Swiss state provided capital to UBS and helped shift hard-to-trade assets off its books. Bank of America, which bought Merrill Lynch, said in March it might raise salaries as a proportion of compensation.

``If the base goes up, it's because bonuses are going down,'' said Jason Kennedy, a London-based investment-banking recruiter. ``It's the same shrinking pie, you're just stealing from Peter to pay Paul.''

Managing directors at the Zurich-based company currently earn about $US190,000 to $US250,000 a year in base pay, Kennedy said. Executive directors and directors earn from $US150,000 to $US200,000, he estimated.

To help retain senior bankers, UBS set aside about 900 million Swiss francs ($1.08 billion) for bonus payments over the next three years in a plan to tie compensation to longer-term profitability. The payments will depend on both the bank and the employee's division being profitable, and on UBS accepting no further capital from the state, the company said in February.

Retaining employees

``There have been off-cycle salary increases at UBS investment bank to retain employees in critical positions,'' the company said in an e-mailed statement today. ``Companies across all industries, including banking, apply such practices to protect their businesses during challenging times by adjusting compensation to the market environment.''

Departures at the securities unit this year include Rob Rankin, head of investment banking for the Asia-Pacific region, and Antoine Dresch, who co-ran European telecommunications and media banking. William O'Donnell, head of US interest-rate strategy, also left the company, as did investment bankers Daniel Ward and Sten Gustafson.

Chief Executive Officer Oswald Gruebel, 65, who took over in February, told shareholders at the annual meeting last month that restoring profitability is UBS's ``most urgent'' task as it tries to regain the confidence of clients. He announced 7,500 job cuts and replaced investment-banking chief Jerker Johansson, 52, with Alexander Wilmot-Sitwell, 48, and Carsten Kengeter, 42.

`Competitive salaries'

Gruebel also said the bank will make savings from cancelling employee benefits. In Switzerland he scrapped car leasing benefits, season tickets for trains, contributions toward gym memberships and free parking.

``It is clear we need to pay competitive salaries,'' Gruebel wrote in a memo to staff after two weeks on the job. ``As a precondition for paying well, we have to return to profitability and avoid unnecessary losses.''

UBS has amassed more than $US53 billion in losses and writedowns, and had to raise more than $US33 billion in fresh capital from investors, including the Swiss government. The bank posted a first-quarter loss of 1.98 billion francs after markdowns tied

to bond insurers and credit-loss provisions.

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