

Value creation – the unifying principle

Address by Alex Krauer, Chairman of the Board of Directors,
at the Annual General Meeting of UBS AG on 26 April 2001 in Zurich

Ladies and Gentlemen,
Dear UBS shareholders

No AGM, no letter to shareholders, no meeting with financial analysts would be complete without conveying the message that you, our shareholders, are the focus of everything we do.

We have made it our most important task to ensure your interests are well taken care of. Creating and maintaining value for our shareholders is our foremost priority. And I would be out of my mind – as I address you here today, at what will be my last AGM as Chairman – to doubt or modify this statement, or even dispute its validity.

There can be no question of that.

And yet, it was not so long ago that we said to a gathering of our clients:

The client is king.

Whatever our clients want, we do.

Our aim is to serve our clients.

The client is the focus of our thinking and everything we do.

Being centred on our clients is what drives our activities.

Fine, no problem with that, you might say.

But then you might recall another statement we made – in roughly the same period – this time to a group of employees. The gist of this statement was:

Our staff are our most valuable asset.

Taking care of this asset is of paramount importance.

For it is only with satisfied and motivated staff that we have any sort of a chance in today's tough competitive environment.

The truth of this statement was brought home to us – and others like us – most forcibly, when we watched skilled employees walk out the door following the announcement of our merger, taking important clients and valuable business relationships with them.

The picture I am composing for you today would not be complete, however, without mentioning a discussion we had recently with a delegation from the cantonal government in Basel. The issue we were discussing is a question put to us repeatedly by other political bodies in Switzerland and it relates to our commitment to Switzerland as a business location in a globalized world.

Not for the first time, we pointed out how important it is for a global organization like ours to have a strong base in its domestic market. And that, for us, this can only mean Switzerland. We are aware of and willing to accept the responsibilities this entails. Not only out of a sense of duty, but also in our own interests. For in the long run, the successful companies will be those who are perceived as part of the community in which they operate and are accepted by that society.

The essence of what I have just said, ladies and gentlemen, is that each and every one of the statements underscoring the importance we attach to all our various stakeholder groups – shareholders, staff, clients and the community in which we operate – are not only honest expressions of what we believe. They are also true. It is hardly surprising, therefore, that we thereby foster certain expectations on the part of all these interest groups, which give rise to a feeling of entitlement.

The question is now, "Can we live up to these expectations and satisfy their claims?". At first glance, at least, the various interests at stake seem very much at odds with one another. And not only this: in certain instances, they even appear to be mutually exclusive. Luckily, however, this is only the initial impression. And it only applies when each of the groups involved has a blinkered view of the goals they are out to achieve. For as soon as this kind of tunnel vision is replaced by a more universal view, the overarching, cohesive elements and common ground start to emerge. Supposed conflicts of interests give way to a different perspective and a whole new message takes shape.

The key to successfully shifting perspective from the narrower, to the broader, more real view of things – and hence moving from conflicting to common interests – lies in a single concept: creating value.



It is no coincidence that, in the report published last November outlining our commitment to clients, staff, our shareholders and the community at large, we stated that our top priority was delivering sustainable value for all our stakeholders.

And how do we do that? What does it take? How do we turn theory into practice?

In answer to these questions, I would first like to look at what creating value for our clients actually means. We create sustainable added value for our clients through the quality of the services and advice we provide. We also create value by delivering quality products and services at an attractive price, by innovative solutions and a good performance. Ultimately, we create value through a long-term relationship based on partnership.

Which is all very well and good, you may say, but what company does not profess such noble sentiments? And what is UBS actually doing to live up to its grand ambitions?

Let me begin with the quality of the advice we provide. Advisory services are taking on an increasingly important role in the banking business. Given the explosive rise of new communication tools and the Internet, you may be somewhat surprised by this statement. Why, in an era when a vast array of information is available at the simple click of a mouse button, is advice so important? The problem nowadays is not gaining access to information, which is why this is no longer the central focus of advisory services. The challenge today is to sift through the masses of information available and analyse, evaluate, prepare and process data into recommendations that make sense and are client-oriented.

As a global integrated firm, we have invaluable advantages. "Integrated" means that we can leverage the close collaboration between all our business groups all over the world to yield significant benefits for our investment and private banking clients through our expertise in global investment banking and our institutional investment capabilities.

Advisory services are becoming an increasingly important part not only of wealth management, but of lending business with our corporate clients. Granting loans as cheaply as possible regardless of the risks involved is not creating value. Value can only be created if we take a comprehensive look at the entire range of a client's business activities and then act as problem-solver for this client. Thanks in no small measure to our size, we can harness our professional and specialist expertise to fulfil the role of a real sparring partner for our clients.

But professional advisory services don't come cheap. And this is one aspect that time and again puts us, along with the other banks, back in the headlines, with reports that our service charges, especially those for our smaller customers, are not client-friendly or are even downright antisocial.

This gives me a good opportunity to explain what we mean by the term "partnership". Our aim is to be the partner of choice for our target clients. But what does partnership mean? To my mind, a good and sustainable partnership – both in the business and private sense – is one from which both sides derive equal benefit and where the give-and-take is balanced and fair. Part of this means charging prices which allow us to cover our costs. For any costs that we fail to cover must be borne either by other clients or the bank, which ultimately means you as a shareholder. Naturally, this goes against our sense of partnership.

I would now like to say a few words about our second group of stakeholders: our staff. If our aim is to create value, we can only do this with a highly trained and dedicated workforce. We are competing for staff with exactly these qualities and skills against other organizations in the marketplace. People of this calibre are not ten-a-penny, and the demand for them far exceeds supply. We must therefore be perceived as an attractive employer for them and be able to offer them added value as well.

Added value for employees involves far more than what they take home in their pay packets at the end of each month. Today's employee demands a lot in terms of leadership and personnel management. Employees want to be challenged by their work and see the rewards in terms of promotion. They want to see their work not only as a challenge but as an opportunity for personal development.

People like this don't just want to work for a company, they want to belong to that company and be proud of it. Thus, the company's goals become the employees' personal goals and they fight to achieve them. In situations where the work being carried out is perceived to have a purpose and employees have the feeling that they are contributing personally to something useful, motivation takes on another dimension, and this is reflected in the results achieved. Indifference gives way to commitment as employees help shape the fate of the company.

If this potential is to be fully utilized, however, a special quality of leadership is required. Long-term success can only be achieved by managers who are able to lead without dominating; managers who convince by virtue of their personalities alone and do not have to constantly pull rank to get things done. Such leaders know that people achieve much more and produce a far higher quality when they are doing it because they want to and not because they are forced. These leaders promote a sense of personal responsibility and

encourage individual initiative; they try to combat the mindset that always waits to be told what to do and when to do it.

Naturally, compensation is an important part of the added value to which employees are entitled. Our compensation policy is designed to reward and encourage achievement. It is also geared to aligning the interests of our staff with those of our shareholders, by making it possible for employees to participate in our bank's profits. As a result, our total compensation package contains a variable portion in the form of a bonus, which is determined by the company's revenues, by individual performance and by market conditions and is paid out partially in the form of blocked shares and options.

As an attractive employer, we must enable our staff to continue to develop and grow, both personally and professionally, thereby maintaining and increasing their value in both our internal job market and in the outside world.

Satisfied clients and motivated employees are vital if we are to create value for you, our shareholders.

For us, creating value for our shareholders means earning an adequate return on the capital they have invested. The focus should not be on turning a quick profit, for achieving a high return on equity is relatively easy given the right market environment. Much more difficult is to create sustained value over a longer time horizon. We are not interested in winning the sprint: our aim is to come top in the marathon stakes, by achieving the best results over the long term. And we set our financial targets accordingly:

We aim to steadily increase the value of UBS, across periods of varying market conditions, with average return on equity of 15-20% and double-digit average growth in earnings per share. In the year 2000, we not only achieved both these targets, we exceeded them.

This positive financial performance is proof that we are on the right path, that we are offering services for which there is strong demand, and that we are competitive and efficient. What's more, it is proof that we have managed, in record time, to make a success of the merger and the complex integration tasks it entailed. This is an achievement that, when we embarked on the merger, many sceptics and critics claimed was not possible, which is why we are especially proud of it. It is, however, also one which would not have been possible were it not for the total dedication and unflagging commitment of our staff. For this, they have more than earned our appreciation and our thanks.

Good results do not only benefit you, our shareholders. The community in which we operate, and the public as a whole also benefit. For, by honouring our responsibilities to society, we create added value for them. We are one of the biggest contributors to the community in Switzerland, but honouring our responsibilities to society means more than just paying taxes and making donations to worthy causes. In my book: honouring these responsibilities is a duty to which a company is morally obliged. It is a misconception to think that companies are only there to make profits, and that they do not consider themselves responsible for anything more than that.

Our commitment to the concept of sustainable development is an expression of our understanding of corporate responsibility. We were one of the first financial service providers to sign the United Nation's "Statement by Financial Institutions on the Environment and Sustainable Development". We also support the Global Compact initiative launched by the UN General Secretary, which deals with the issues of global companies' social and ecological responsibilities.

In our day-to-day business, we enforce rigorous measures to ensure that, all around the world, the various legal and regulatory provisions in force in all jurisdictions are complied with. In some areas, we apply binding global guidelines that go even further than legislation requires.

Naturally, the complex issue of money laundering is of particular relevance for a financial institution. Swiss banks probably apply the most stringent criteria for combating money laundering the world over. Recently, we were a driving force behind the initiative to have these stringent criteria applied globally. We played a key role in the formulation of the anti-money laundering rules, the Wolfsberg Principles. These Principles were published by eleven of the world's largest banks at the end of October of last year and have since met with a very positive response.

And this brings me full circle. I have shown by these examples how we create added value for our various stakeholders and how, at the same time, we honour our responsibilities towards society as a whole.

In this endeavour, our integrated business model – i.e. the combined synergies of our Business Groups UBS Switzerland, UBS Warburg and UBS Asset Management – brings us

significant advantages. We can thus exploit a whole range of synergies – not simply on the cost side, but first and foremost on the earnings side. In addition, we have found the right balance between focus and diversification of our business, as well as between the necessity for scale and a structural division into manageable organizational units with a clear responsibility for results.

Added value cannot be created without an impressive business model and an efficient organizational structure, but it takes more than these two elements alone. Just as important is a value-oriented corporate culture. A culture that can create value, across the board and over the long term. A culture with a target-setting process, a results and performance review system and a salary policy geared to creating value.

Creating value is more than just doing a good job. "Am I creating *real* value: in other words, value a client is prepared to pay good money for?" This is the question that each and every employee – from the Chairman to the apprentice – must constantly ask and answer honestly.

Such a value-oriented corporate culture can tap into an enormous potential. Profits earned are higher, and there is thus more to be shared out among all groups of stakeholders. It is easier to establish the right balance between the interests of individual groups and those of the community as a whole, between short-term demands and long-term necessities. Only such a value-oriented culture can help clients, employees, shareholders and the public see that we are all in the same boat, working towards the same goal, namely the success of our company in a fiercely competitive global marketplace.

Today, I can say in all honesty that I know of only a handful of companies that apply the principle of delivering value as systematically and as rigorously as UBS.

As a shareholder, you can be proud that UBS is at the forefront in the development and implementation of this principle. It means that your company is ideally equipped to face the future.