

The making of UBS

Global leadership through corporate transformation



Introduction

Today's UBS took shape in the course of the 1990s through a series of mergers and acquisitions. These initiatives transformed a predominantly Swiss business into a top-ranking global institution. This brochure is a summary history of that transformational decade.

Although it also includes historical sketches of several important UBS predecessor firms, this short study does not pretend to offer a comprehensive corporate history. Instead, the aim is simply to outline the process by which UBS evolved.

In these pages, we take our account as far as the acquisition of PaineWebber, a move that decisively shifted the firm's centre of gravity beyond Switzerland and Europe and greatly increased the scale and scope of its businesses.

But that, of course, is far from the end of the UBS story. As this brochure demonstrates, a dynamic approach to change has been the mainspring of the company's past achievements and will continue to drive its future success.

“UBS transformed itself [during the 1990s] through a series of major transactions and our successful integration of these new businesses. Each move brought very distinct contributions to the group. ... What has made the strategy successful is that, along with the strategic and financial implications, we carefully evaluated the cultural fit of each organization. Our cultural openness and willingness to learn from a diversity of viewpoints mark the history of UBS and are at its very core, its essence.”

Peter Wuffli

“What can we learn from this string of mergers and acquisitions that has made our institution what it is today? Firstly, you need to combine a systematic, analytical approach with a strong intuitive sense for capturing opportunity. Secondly, you need a powerful joint vision. And the vision did not just revolve around an economically attractive business rationale. There were at least as many cultural features. Thirdly, balancing top management continuity and renewal was crucial. Success depends on being open to bringing in new blood at the very top of the organisation, but ensuring commitment to the original long term vision and goals. Fourthly, you must make sure to leverage the most out of your mergers and acquisitions by drawing upon their often unique set of capabilities, resources, franchises or cultural characteristics. Lastly, a clearly articulated integration strategy is vital. Not all of our acquisitions were integrated immediately. But whether you do a swift integration or a more long drawn out one, you should try to have an intense, upfront debate about which approach to follow.”

Marcel Ospel

Origins



Birthplaces of Union Bank of Switzerland (Winterthur and Lichtensteig), Swiss Bank Corporation (Basel) and PaineWebber (Boston).

In June 1998, Union Bank of Switzerland and Swiss Bank Corporation completed the merger announced six months previously. Just two years later, UBS acquired the US brokerage firm PaineWebber, greatly increasing the size and scope of its business. Then the new firm set the seal on these achievements by proclaiming a single brand.

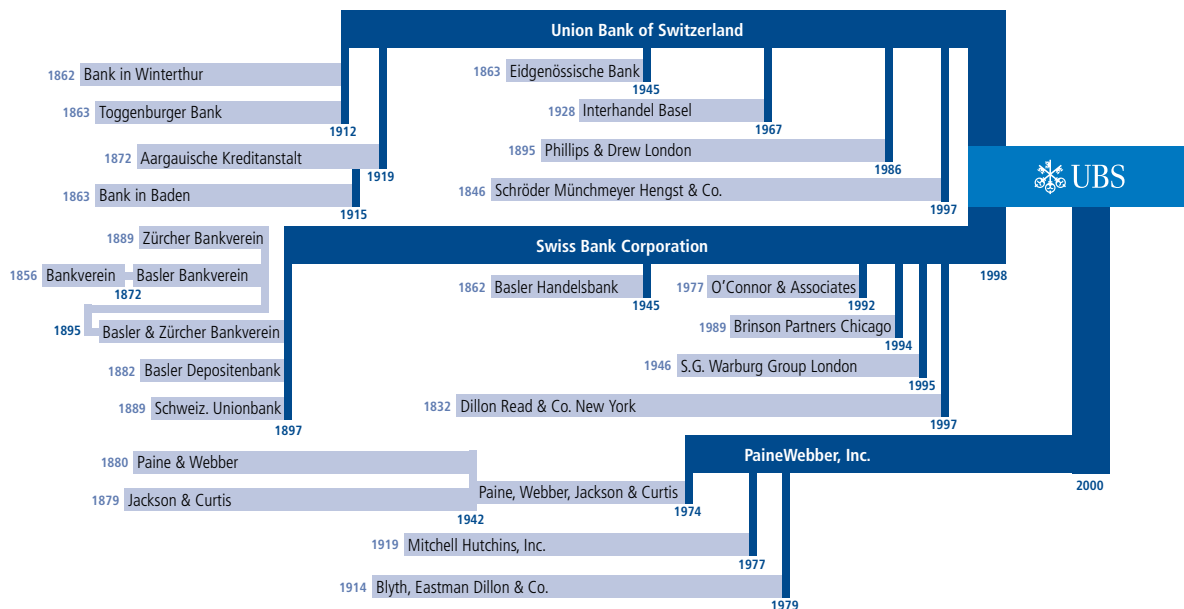
In this light, UBS is both a new institution and new brand. At the same time, its history extends many generations into the past, particularly in Switzerland, the US, and the UK. In the picturesque Swiss region of Valposchiavo, for example, one UBS branch traces its origins as far back as 1747.

The core components of today's UBS date back to the second half of the nineteenth century. Union Bank of Switzerland, SBC, and PaineWebber or their antecedents were all founded in the 1860s and 1870s. Phillips & Drew, the London stockbroker acquired by Union Bank of Switzerland in the mid-1980s, was founded in 1895. But Dillon Read, SBC's last acquisition before its merger with Union Bank of Switzerland, originated as early as 1832.

A central constituent of UBS Investment Bank, S.G. Warburg, was established just after the second world war. When acquired by SBC in 1995, the British merchant bank was just short of its fiftieth anniversary. By contrast, the Chicago-based firms of O'Connor (founded 1977) and Brinson Partners (founded 1989) were upstarts when acquired by SBC in 1992 and 1994, respectively.

In melding these varied firms into a single enterprise, UBS transformed itself in the course of the 1990s. Each new acquisition or merger contributed a new strand to the character of the growing bank. SBC's alliance with O'Connor, for example, radically changed the firm's culture. For its part, the merger of Union Bank of Switzerland with SBC altered the competitive landscape. Then the PaineWebber acquisition in 2000 shifted the firm's centre of gravity decisively beyond Switzerland and Europe.

The effect of these moves was nothing less than to transform SBC and Union Bank of Switzerland, two predominantly Swiss banks, into the global institution that is UBS today.



A decade of transformation

How did UBS manage to raise its international profile so dramatically in such a short space of time? As late as the mid-1980s, neither of its Swiss antecedents, SBC and Union Bank of Switzerland, was prominent outside its domestic market. Nor did either rank among the top twenty global banks. In Switzerland, though, both were well positioned and, with Credit Suisse, dominated their home market. Measured by balance sheet size, their combined market share reached as high as 50 per cent.

But Switzerland's financial sector started to come under pressure in the late 1980s. After the central bank punctured a real estate bubble, the country languished in the economic doldrums until 1997. The Swiss corporate and consumer lending markets saw a sharp rise in defaults, cutting into bank profits. These conditions, together with the deregulation of the Swiss banking

sector after 1990, forced the banks to reconsider their strategy. As *The Economist* observed, "a rude shock has hit Switzerland's bankers. They are being forced ... to compete." (January 1991)

Deregulation had far-reaching effects, starting with an accelerated rate of consolidation in the financial sector. With Credit Suisse's acquisition of Bank Leu in 1990 and Swiss Volksbank in 1993, the number of big banks shrunk from five to three. In view of their already substantial market shares in Switzerland, the big banks had to look beyond the country's borders for significant further growth.

By the early 1990s, both SBC and Union Bank of Switzerland had reached similar conclusions. Their future would lie beyond the borders of Switzerland in the major financial markets of the world. They would

Union Bank of Switzerland and Swiss Bank Corporation

In Switzerland, today's UBS is founded on the history of its two most significant ancestors, Union Bank of Switzerland and Swiss Bank Corporation. The first stone was laid in Winterthur, a city which emerged as the industrial hub of northeastern Switzerland in the second half of the 19th century. Adopting the name of its home city, the Bank in Winterthur (founded in 1862) actively supported the region's commercial

and industrial development. Union Bank of Switzerland was formed in 1912 when the Bank in Winterthur merged with Toggenburger Bank, founded in 1863 at Lichtensteig, a small town in eastern Switzerland.

For its part, Swiss Bank Corporation was rooted firmly in Basel, in the northwestern corner of Switzerland. The city's proximity to Germany helped to shape the

origins of the Basler Bankverein, SBC's direct forebear. Prussia's defeat of France in 1870/71 and the subsequent unification of Germany set in motion a massive economic and financial upsurge in Germany that also left its imprint on Switzerland. Not only was the protocol for the formation of the Basler Bankverein signed in Frankfurt, but a German bank provided the capital, in concert with a Swiss syndicate of six Basel-based private banking houses. With seven foreigners among its 17 original directors, the Bankverein was an internationally oriented institution from the outset.

Like the Bank in Winterthur, the Basler Bankverein played a significant role in Switzerland's rapid industrialisation, both by financing railway construction and, most notably, by helping to establish Basel as the centre of Switzerland's chemical industry. In subsequent decades, the Basler Bankverein expanded by joining forces with the Zürcher Bankverein (of Zurich) and the Schweizerische Unionbank (of St. Gall). With the acquisition of the Basler Depositen-Bank in 1896, the bank changed its name to Schweizerischer Bankverein



1900: Counter of Swiss Bank Corporation's London Office at Lothbury 43.



SBC management office at the beginning of the 20th century.

(Swiss Bank Corporation). Just before the turn of the century, it opened an office in London.

The Basler Bankverein and the Bank in Winterthur converged on Zurich when the former merged with Zürcher Bankverein in 1899 and the latter set up a Zurich branch at Bahnhofstrasse 44 in



Merger agreement between the Bank in Winterthur and Toggenburger Bank, 1912, leading to the creation of the Union Bank of Switzerland.

have to outgrow their mainstay Swiss retail, private, and commercial banking activities. From the late 1980s, therefore, both banks sought growth abroad. They looked for a long-term competitive advantage by transforming themselves into top-tier global financial institutions with international cultures and multinational workforces.

The next step was to translate these ambitious goals into concrete planning. By the late 1980s, the internal debates had crystallised into strategic frameworks that came to be known as "Vision 2000" at SBC and "Strategy for the 1990s" at Union Bank of Switzerland.

SBC's "Vision 2000"

In the 1980s, SBC took steps to position itself in the burgeoning capital markets by expanding in London and in New York. Despite these efforts, the bank

entered the 1990s with very modest investment banking and wealth management platforms in terms of managerial depth, risk management, product and client reach, and technology. Its presence in the US, home to half of the world's capital markets by value, was also limited.

After lengthy discussions, the bank's senior management produced a set of guidelines that clearly defined Swiss Bank's primary activities, together with a development plan. The first version of "Vision 2000", SBC's road map to the future, emerged in 1990. It set out key objectives that the bank needed to attain if it was to achieve a global top-ten position.



1906. Swiss Bank Corporation kept its headquarters in Basel until 1998 while Schweizerische Bankgesellschaft (Union Bank of Switzerland) did not shift its head office to Zurich until 1946. However, the Union Bank's growing focus on Zurich was reflected in the opening of its Bahnhofstrasse 45 branch, one of today's head office buildings, in 1917.

By the early 1920s, employee numbers had advanced beyond 2,000 at Swiss Bank and 1,000 at the Union Bank of Switzerland. The trend went into reverse in the 1930s, however, with the Union Bank cutting its staff levels by one-quarter between 1931 and 1936. The decade's political and economic upheavals subjected both predecessor firms to dangerous turbulence. One enduring legacy from this period was SBC's decision to commission a new logo. In 1937, the bank settled on the three keys, symbolising trust, security, and discretion, that still figure prominently in the UBS logo today.

By 1945, both Union Bank of Switzerland and Swiss Bank Corporation had substantially strengthened their position by taking over two large but

troubled competitors. Union Bank's absorption of Eidgenössische Bank (founded in 1864) took its total assets to CHF 1.5 billion, while SBC's take-over of the Basler Handelsbank (founded in 1862) swelled its balance sheet to almost CHF 2 billion. These moves put both banks in a good position to ride the economic upswing of the 1950s. By the mid-1960s, the total assets at both banks moved above CHF 10 billion for the first time while shareholders' equity advanced to more than CHF 1 billion at the end of the decade.

Between the late 1960s and the 1980s total assets and shareholders' equity increased tenfold at both institutions. Yet their business and geographical focus was still overwhelmingly domestic, even though both banks had established a toehold in other financial centres. To its branch in London, SBC had added an agency in New York in 1939 while Union Bank of Switzerland opened a representative office there in 1946. Further representative and advisory offices were established in other cities worldwide. Not until 1967, however, did Union Bank open its first full branch outside Switzerland, in London.



Prospectus for the introduction of Basler Bankverein shares on the stock exchange, 1872.



As the central focus, the bank committed itself to developing a balanced business portfolio founded on the three main pillars of wealth management, retail and commercial banking, and investment banking. Globally, SBC aspired to become a bulge-bracket investment bank and the world leader in private wealth management with a strong positioning in institutional asset management.

Wealth management was attractive for its strong growth potential, high margins and low capital requirements. Meanwhile, institutional asset management would offer important synergies with both private banking and investment banking, itself a priority for development. Swiss retail and commercial banking would be retained and the bank even pledged itself to strengthening its market position and earnings in this increasingly difficult segment. In its 1996 update of "Vision 2000", SBC reiterated this "three pillar" strategy.

In addition, the new document placed a strong emphasis on shareholder value with defined financial targets, as well as outlining the development of a results-oriented organisation and a management philosophy that would encourage entrepreneurship and accountability within the business units.

In "Vision 2000", SBC had created a strategic framework for the 1990s. Now the bank had to implement it. As a first step, SBC's organisation and culture needed a profound transformation. But changes of this order would prove impossible by internal efforts alone. Instead, the impetus was to come through a series of mergers and acquisitions.

Union Bank of Switzerland's "Strategy for the 90s"
Compared to that of SBC, Union Bank of Switzerland's international presence was both more recent and

smaller. The bank's presence outside Switzerland had grown from a negligible 1 per cent of its workforce in the mid-1970s to a modest 5 per cent in the mid-1980s when its management decided to expand outwards on the basis of the bank's Swiss foundations.

As at SBC, the central aim was to build a global financial institution with a primary focus on an investment banking platform. The latter was to be constructed mainly through the build-up of a sales and trading operation. At the same time, Union Bank also planned to strengthen its international asset management and offshore private banking operations.

These objectives found their way into Union Bank's "Strategy for the 1990s", promulgated in 1990. Its main points included: accelerated expansion in investment banking (sales and trading, and corporate finance) with a strong geographical focus on New York, Tokyo, Zurich and London; organisational changes to improve the bank's response to financial and technological change; and increased openness and transparency towards the firm's stakeholders.

Through its investment banking build-up, Union Bank of Switzerland did succeed within a few years in reaching critical mass in certain products and geographical markets. To a large extent, these efforts depended on offering lucrative compensation packages to attract talent. This type of organic growth undoubtedly came at a heavy financial price. It also placed an increasing strain on the firm's culture.

Despite the emphasis on organic growth, acquisitions were not opposed outright and several potential targets were considered. In the event, however, Union Bank limited its purchases abroad to Phillips & Drew, Chase Investors and, in 1997, Schröder Münchmeyer Hengst.

Phillips & Drew

Implementing “Vision 2000”

In the mid-1980s, Union Bank of Switzerland responded to London’s “Big Bang” by acquiring Phillips & Drew, one of the City’s leading stockbroking houses and a growing force in UK institutional asset management.

“The future lies with the big firm doing institutional business, with lessening prospects for the smaller firm catering for private clients.”

Sidney James Perry, Phillips & Drew senior partner, 1949.

For its part, SBC had sought out Savory Milln, a smaller competitor of Phillips & Drew. Yet the acquisition of Savory Milln pales into insignificance when compared to SBC’s next international venture. While Savory Milln was simply an add-on, the alliance with the Chicago-based derivatives house, O’Connor & Associates, was a pivotal event in the bank’s evolution. When it entered into a joint venture with O’Connor in 1989, SBC started a process that would ultimately transform not only the bank but the entire Swiss financial sector.

O’Connor

From its outset in 1977, O’Connor & Associates had expanded rapidly. By 1986, it was represented in major US cities and in London. As an early adopter of high-powered computer workstations, it used technology adeptly to support a growing range of business activities. These included trading in interest rate products from 1979, as well as foreign currencies and stock indices from 1983. Meanwhile, staff numbers rose from an original team of six to about 600 in the late 1980s.

In 1895 George Phillips sought out Richard Drew to help him run a city brokerage. Then known as G. A. Phillips & Co., the firm’s share portfolio included such grandly named (and long forgotten) companies as Thunderbolt Patent Governor and Automotive Syndicate. It also had interests in Western Australian gold mining companies. In 1905, the firm adopted the Phillips & Drew name with the arrival of Geoffrey Harvey Drew as a new partner. Until the late 1940s, the Drew family continued to hold a controlling position within the firm, much as the Paine family did at Paine Webber. In the 1950s,

Phillips & Drew decided to combat the nepotism then still prevalent in the City. To instil a sense of meritocracy into the firm, its members were prohibited from bringing in relatives. Instead, the firm focused on attracting the best-qualified people with attractive employment conditions, and on encouraging its staff to undertake relevant training. By the late 1960s, the firm had earned this judgement from a contemporary: “very professional, broadly meritocratic, and sustaining an ethos in which teamwork was preferred to stars, Phillips & Drew had at this stage in its history a unique reputation in the City.”

In the 1980s, O’Connor & Associates emerged as a pioneer in applying sophisticated risk management technology and quantitative techniques to the securities, futures and options markets. In cultural terms, the firm’s most significant attributes were an unwavering emphasis on non-hierarchical and open thinking and on concentrated teamwork.

These successes attracted the attention of SBC. Shortly after O’Connor moved into the 30,000 square-foot trading floor just vacated by the Chicago Board Options Exchange in 1988, SBC entered into negotiations with the US firm that resulted in a strategic alliance between the two. Instead of developing its own expertise in derivatives and risk management, SBC had decided to seek out an expert partner.

Less than three years later, the joint venture, Swiss Bank/OC Services was fully integrated into SBC and, with it, many of O’Connor’s original trading businesses and employees. In legal terms and in name, however,



O'Connor & Associates continued to exist in order to deal exclusively with US equity option trading. Its integration into SBC was completed at the end of 1994.

The acquisition was modest in size but huge, indeed transformational in terms of its impact on SBC. O'Connor immediately advanced the Swiss bank into the front ranks of the derivatives and risk management advisory businesses, but the secondary effects went far beyond that. By putting O'Connor's expertise to work, SBC was able to consolidate its risk management, build a platform for a modern investment bank and achieve a more meritocratic, open and performance-driven culture.

O'Connor clearly "made a difference" (*American Banker*, June 94) to SBC not only in terms of the operational technology and capabilities gained, but also in view of the knowledge and skills of the "O'Connorites" who joined SBC. Even more significantly, O'Connor transformed the nature of SBC's ambitions. Where once it measured itself against its Swiss peers, the bank now compared itself with the top global institutions.

With O'Connor on board, SBC took an important step towards creating the investment bank platform it desired. At the same time, the ultimate goal remained some way off. In essence, SBC's investment banking business continued to be a trading platform with a strong proprietary bias. It did not yet possess an adequate client franchise.

S.G. Warburg

When, in 1798, Moses Marcus Warburg and his brother Gerson opened a bank in Hamburg (M.M. Warburg & Co), they laid the foundations for a banking dynasty that has endured to the present day. In 1934, Siegmund Warburg, a member of this family, fled the growing oppression of the Nazi regime and settled in London, where he later founded and built up a new merchant bank. From its humble beginnings in 1946, S.G. Warburg soon built a reputation as a somewhat unorthodox financial institution. In the 1950s and 1960s, S.G. Warburg was frequently at odds with the City of London establishment, which failed to understand Warburg's endeavours to revive

and internationalise London's fading financial markets. To the outside world, the firm's innovative spirit was vividly demonstrated in such achievements as the US firm Reynolds Metal's hostile take-over of British Aluminium in the late 1950s, and the first Eurobond issue in 1963. Within S.G. Warburg, the bank's business approach was reflected in its culture, most notably in its total emphasis on client focus and quality control. As Siegmund Warburg noted, 'the primary point seems to me always to be the quality of the service and the courage to persist in giving well-considered advice, no matter how unpopular that might be at times.'

The limits to a policy of organic growth were clearly acknowledged in the management ranks of SBC's International Finance Division, now bolstered and internationalised by additions from the recently acquired O'Connor. A strategy of rapid expansion through a substantial acquisition could now be contemplated. The obvious target would have been an American investment bank, given SBC's ambitions in the US financial markets.

At the same time, SBC wanted to get there profitably. In other words, the cost of a US acquisition was at that time seen as excessive. Taking over a US firm might also have cost the Swiss bank its independence. In this light, it was hardly surprising that SBC chose to strengthen its European base before making further moves in the US. In addition, the Swiss bank was increasingly anxious to fend off growing competition from US investment banks on its home turf. All these considerations helped to focus SBC's attention on one of Britain's top merchant banks, S.G. Warburg.

S.G. Warburg

In the London City of the 1950s and 1960s, S.G. Warburg stood out as the "pushy" merchant bank. The strengths of its approach were reflected in an impressive client portfolio. Its expansion gained way after London's "Big Bang" when it acquired market-maker Akroyd & Smithers and stockbrokers Rowe & Pitman, and Mullens.

From the mid-1980s, S.G. Warburg pursued an international strategy with the aim of building a top-tier global investment banking and asset management firm. One major plank of this strategy was expansion in the US, which the bank attempted with vigour from the early 1990s. Unfortunately, these efforts proved to be more costly than effective. Nonetheless, by 1994 and with a workforce of 5,800, S.G. Warburg topped the UK rankings for equity underwriting, UK M&A, and European equities research. It was also ranked among the top five in international equity underwriting.

During the second half of 1994, S.G. Warburg entered into merger negotiations with Morgan Stanley. Although these talks eventually lapsed, S.G. Warburg did not abandon the idea of tying the knot with a larger institution. On 2 May 1995, S.G. Warburg disclosed an £860 million offer from SBC for its investment banking business. On 10 May, SBC announced its acquisition of the merchant bank, then the largest such deal ever seen in the investment banking sector.



In the UK, surprise was tinged with shock as the most significant of the surviving British merchant banks succumbed to a foreign bidder. According to one commentator, SBC was , “widely viewed as the pushiest bank in the Square Mile” (*Institutional Investor*, Dec. 1995). Sceptics had a field day at the inauguration of SBC Warburg, as the new investment bank was known. One journal predicted “an extraordinarily acute case of culture clash – bold, brash and freewheeling SBC could scarcely be more different from Warburg, the very model of an establishment merchant bank.” (*Institutional Investor*, Dec. 1995) As it turned out, these concerns were unfounded.

“In the late 1960s, the pace of life was slower, with stock prices being updated once an hour.”

Crispian Collins, Global Asset Management, 2003

In the event, a number of factors smoothed the integration of cultures within the merged business. Most important was the fact that this had been an agreed, not a hostile take-over. Indeed, S.G. Warburg executives had encouraged SBC’s overtures and had subsequently endorsed the merger. It was obvious that, as the purchaser, SBC would drive the pace and course of the integration, with former S.G. Warburg executives involved in the process to a more limited extent. In cultural terms the outcome was more a blend of SBC (or, more precisely, the former O’Connor) and S.G. Warburg than an outright imposition of SBC upon the British firm.

In the end, the culture clash turned out to be more mooted than real. Some long-standing members of S.G. Warburg went as far as to say that SBC’s approach reminded them how S.G. Warburg used to be. Making precisely that point, Henry Grunfeld, Siegmund Warburg’s closest associate, pointed out that S.G. Warburg was an aggressive firm in its early days

and that its new management would likely ensure that it returned to this tradition.

With its S.G. Warburg acquisition, SBC substantially expanded its investment banking capabilities and client franchise in both Europe and Australia. In its strategy for the latter country, the Swiss bank had already decided to build a significant presence in Australian investment banking and, in the medium term, use this as a platform for a strong advance into the Asia-Pacific region.

As a first step towards implementing this plan, SBC had in 1991 merged its own operations, SBC Australia, established in 1970, with those of Dominguez Barry Samuel Montagu, an Australian investment banking house founded in 1976. Now, with the advent of S.G. Warburg, SBC merged these operations with those of Potter Warburg (originally founded as Ian Potter & Co in 1936), “blending the best of both firms to produce something quite different and powerful” (*The Age*, March 2003). The transaction created the leading Australian investment bank, SBC Warburg Australia, the basis for UBS’s continuing strength in investment banking “down under”.

Dillon Read

Dillon Read originated in 1832 as the Wall Street brokerage firm, Carpenter & Vermilye, but its heyday was undoubtedly in the 1920s. It was then that several groundbreaking deals catapulted the firm into the media limelight. In just a few years, Clarence Dillon managed the rescue of the faltering Goodyear Tire & Rubber company, engineered the buyout (in 1925) and subsequent sale of Dodge Motors (in 1928) to Chrysler, launched the first post-war closed-end investment trust (in

1924), led the largest-ever stock offering (in 1926) and, in the same year, helped to arrange financing for the amalgamation of six large German steel companies. By the end of the decade, “the most celebrated investment banker of the roaring twenties” had established Dillon Read as an investment banking powerhouse, positioned just below J. P. Morgan and Kuhn Loeb, the two leaders. Subsequently, however, momentum was lost and the firm slipped back through the rankings.

“There is a delicious irony in SBC’s approach. Warburg made its name by shaking up London’s haughty financial establishment during the 1950s and 1960s. SBC has been a latter-day equivalent of late, using daring new ideas in its efforts to drum up customers.”

The Economist, May 1995

By late 1995, SBC Warburg was receiving growing acclaim from analysts and journalists. *Euromoney* praised it as “a leading bookrunner of international equity issues, of Euro-equity linked deals and convertibles, international bonds and covered warrants. It tops the league tables in several categories. Its derivatives capabilities are highly rated in polls and it is arguably the leading arranger of innovative derivative-linked capital raising instruments.”

In the US, by contrast, the Warburg acquisition did little to raise SBC’s profile. Nor did the subsequent purchase of the US investment bank Dillon Read in May 1997, leading to the creation of SBC Warburg Dillon Read. SBC had few illusions regarding its purchase, recognizing that Dillon Read was a fading franchise, albeit one with a solid reputation and client list.

In fact, SBC’s move was focused more on Europe than America. Once again, the key motive was to defend the Swiss bank’s core European franchise against US competition. US bulge bracket firms were making significant inroads on the European primary equity and M&A advisory markets, acting in some cases as lead book-runners on large equity issues and even as exclusive underwriters. Through its acquisition, SBC hoped to bolster its position with European investment banking clients by drawing on the illustrious brand name of Dillon Read.

The O’Connor, Warburg and Dillon Read acquisitions were all building blocks in SBC’s growth-through-acquisition strategy for its investment bank. But the Swiss bank’s ambitions did not stop with investment banking. Institutional asset management was also viewed as a priority, thanks to its business growth potential, as a source of earnings diversification and stability, and for its synergies with private banking.

To this end, SBC had built up a presence in institutional asset management through various portfolio management subsidiaries in leading financial centres. In 1992, these were combined in a global network managed from Switzerland, a first step towards improved coordination and service quality. Yet SBC was still a long way from the major league in this sector, lacking as it did a lengthy track record, notably in the important US market.



Brinson

SBC's management therefore came to consider the acquisition of a US asset manager as a key strategic goal. As an additional motivation, the Swiss bank aimed to shore up its private banking business against US firms that were offering their institutional asset management services to wealthy clients. To counter this threat, the Swiss private bankers hoped to gain access to a product "factory" run by a top-tier asset management firm. They also hoped to benefit from the improved, centralised investment process that such a firm could provide. At this time, asset allocation was still largely decentralised within private banking, despite attempts at realignment.

SBC's management concluded that the asset allocation function could only be successfully centralised through the purchase of a leading institutional asset management house, whose processes could then be extended to private banking. In their view, this acquisition would catalyse change in SBC's asset management business, just as O'Connor had transformed its risk management skills. In due course, Brinson Partners, a prominent firm in the burgeoning US institutional asset management industry, was singled out as the firm most likely to meet these requirements.

Brinson Partners had been established in 1989 after a management buyout of First Chicago Investment Advisors, the asset management subsidiary that First National Bank of Chicago had set up in 1984. In 1994, when the firm accepted SBC's purchase offer, Brinson Partners had 10 managing partners and 250 employees. Its headquarters were in Chicago, with offices in London and Tokyo.

A major aim of the acquisition was to build market share in the US. SBC also hoped to build a global institutional asset management business by matching Brinson's products with SBC's international client list; to use Brinson's skills to expand the private banking franchise, and, eventually, to develop a centralised asset management function.

At the time of the acquisition, SBC planned to integrate its existing Basel-based institutional asset management operations into the US firm and to adopt Brinson's processes for its own private banking business. In practice, however, the Basel-based institutional asset management business continued to focus on its Swiss clients, while Brinson Partners kept its orientation towards the US market.

After SBC's incorporation of O'Connor, the acquisition of Brinson Partners was meant to become a further transformational step in the bank's strategic evolution. As the leading US institutional asset manager, Brinson seemed to be the ideal choice to strengthen SBC's franchise with institutional investors. Once integrated, Brinson undoubtedly did raise the bank's profile in this sector. Yet the American firm failed to change SBC in the same way that O'Connor had.

Attempts at integrating the Swiss and US asset businesses faltered and Brinson's skills were not widely disseminated across the bank. A full integration did not take place until 2000 when UBS merged its Brinson and Phillips & Drew units into a single asset management platform.

Acquisitions by Union Bank of Switzerland

While SBC betted big on transformational acquisitions, Union Bank of Switzerland stuck to its organic growth formula. In investment banking, its main international focus, Union Bank certainly built up pockets of strength. However, it never achieved a clear leadership in any specific core product or geographical market. Worse still, inadequacies in its risk management processes laid the bank open to large fluctuations in its earnings.

Although the investment banking businesses of Union Bank and SBC were roughly comparable in size, that of Union Bank was less favourably perceived by the market. The organic growth strategy was unconvincing, owing to its slow pace, high cost, and apparently distant pay-off. By the mid-1990s, this scepticism had spread to Union Bank's top management, who became

increasingly open to the idea of growing via mergers and acquisitions.

In practice, this shift found its sole expression in the 1997 purchase of Schröder Münchmeyer Hengst. With historical roots dating back to the mid-nineteenth century, the German firm had been formed in 1969 by the successful merger of three traditional German private banks. Union Bank regarded the acquisition as an opportunity to establish itself in private banking in Germany, and to expand its institutional asset management and investment fund businesses. Following the merger with SBC, Schröder Münchmeyer Hengst was re-branded to UBS in 2001. This move accorded with the European Wealth Management initiative launched by UBS to build its "onshore" private banking franchise in Germany, France, Spain, Italy and the UK.

Assembling UBS



By the mid-1990s, both SBC and Union Bank of Switzerland had made some progress towards their strategic goals. But travelling the last mile would take nothing less than an epoch-making merger. In December 1997, Union Bank and SBC announced that they would join forces to create UBS, thus laying the foundations for a truly global, integrated financial services firm.

In 1996, leadership changes had taken place at both banks. It was within this new organisational context that the first merger discussions opened in January 1997. They were followed by more formal negotiations in March and June. Negotiations lapsed in July but a new round of talks started in the autumn. By the third week of November, the key merger issues had been resolved. It was agreed that the merged firm would, for the greater part, adopt SBC's organisational model and principles. The new structure would include a Corporate Center to support the business groups and reinforce the separation of business origination and risk control.

The managers of the two predecessor banks shared leadership posts and responsibilities in the new structure to varying degrees, depending on business group

and function. In investment banking, for example, SBC's platform prevailed, thanks to its stronger management team, brand, and risk management skills.

During the crucial days of 19 to 21 November 1997, the two sides worked out remaining key points. First, they determined the new legal structure and the share exchange ratio. Secondly, they revised the business model. Thirdly, they decided who would sit on the new group executive board. Finally, the legal contracts for the merger transaction were drawn up, and the communications plan prepared.

On 5 December, the boards of both banks voted in favour of the transaction and the merger was announced as planned on 8 December 1997.

In the course of their negotiations, both Union Bank and SBC had faced challenges that influenced their thinking on the necessity and timing of a merger. For SBC, that issue was the bank's shrinking capital base. This cut into management's room for manoeuvre, given that, without a merger, they would shortly have been forced to raise equity to meet the costs of probable future provisions and to supply the investment banking business with capital.

“Ongoing globalization and deregulation of the international financial markets, tougher global competition, and the resulting world-wide wave of consolidation in the financial services industry have made size an increasingly critical factor for any financial services provider with ambitions to be among the most successful players worldwide. Against this background and acting from a position of strength, the Boards of Directors of UBS (Union Bank of Switzerland) and SBC have decided to create a leading global financial services group operating under the name of UBS.”

Joint press release from Union Bank of Switzerland and SBC, 8 December 1997.



These constraints aside, the merger was a forward-looking and positive move. Its aims were to build top-tier positions for the new firm's core activities, and to create substantial shareholder value. In its four international business segments (investment banking, institutional asset management, private banking and private equity), the new firm aspired to be among the global leaders, while in Switzerland it aimed to lead the Swiss consumer and corporate banking sectors.

The new bank would increase shareholder value by achieving a sustainable (after-tax) return on equity of 15–20 per cent. This would be supported by a firm commitment to transparency and disclosure, and by implementing strong corporate governance principles. The latter included performance-oriented management processes, meritocratic selection and compensation, and centralised, independent risk control and financial management.

“U.S. investment banks, watch out. The arrival of a new Swiss heavyweight has radically raised the stakes in the race for world investment-banking supremacy.”

Wall Street Journal, 9 December 1997

The completion date for the merger would depend on the necessary approvals from shareholders and government regulators. The shareholders gave their support at extraordinary general meetings in Zurich for Union Bank and Basel for SBC. Support was overwhelming on both occasions. As for the regulators, the Bank of the England was the first to give its blessing, on 30 March 1998. Gaining the endorsement of the Swiss and US regulators took somewhat longer.

“A fresh, hopeful view of the future justifies the formation of the new company.”

Management of Bank in Winterthur and Toggenburger Bank on their merger in 1912

In the US, the merger approval timetable was influenced by the ongoing class action suits against the Swiss banks on the issue of World War II-era dormant accounts. After several months of negotiations, a settlement was agreed in August 1998 in which the Swiss banks agreed to pay \$1.25 billion. The formal Settlement Agreement was signed on 26 January 1999 and became definitive on 30 March 1999.

In the meantime, the New York State Banking Department had granted regulatory approval for the merger on 4 June 1998. The Federal Reserve's “green light” followed on 8 June 1998. In Switzerland, the Swiss Competition Commission announced on 4 May 1998 that it would approve the merger under certain conditions. These conditions were met by March 1999. The Swiss Federal Banking Commission had already approved the merger on 17 June 1998.

Implementing the merger

Implementing the merger was a daunting task, given the number of affected staff, the wide range of businesses, and the size of the balance sheets. Neither party had ever undertaken an integration of this magnitude. Fortunately, the new organisation could draw on SBC's experience of integrating S. G. Warburg in 1995. This episode had shown the critical importance of tight project management and rapid implementation, lessons that were applied in the Union Bank-SBC integration.

In the midst of these efforts, UBS was hit by the implosion of the Long Term Capital Management (LTCM) hedge fund, in which Union Bank of Switzerland had invested. On 23 September 1998, UBS declared a SFr793 million pre-tax loss on its LTCM exposure. The bank also injected \$300 million into the fund as part of a bailout coordinated by the US Federal Reserve. In connection with this matter several UBS senior managers assumed responsibility and resigned on 6 October. Far worse than its financial impact, the LTCM episode dealt a crushing blow to the fledgling firm's image and confidence. An air of pessimism pervaded most divisions, leading to significant employee disaffection and client losses.

Rumours even circulated that UBS might divest itself of its investment bank, then known as Warburg Dillon Read. As the *Financial Times* reported in October 1998, UBS "officially is examining ways to improve synergies between WDR and other parts of UBS. But recent events have put the presence of WDR within the group on the agenda for discussion."

The events of late 1998 spurred on efforts to embed a solid risk control culture. In the aftermath of LTCM, UBS implemented a fully integrated approach to risk management and control based largely on the existing SBC framework. It also initiated a comprehensive review of the firm's risk profile. One outcome was the accelerated downsizing of the large international loan book, largely inherited from Union Bank of Switzerland. Lower international credit exposure started to help financial performance from 2000 onwards.

Integration costs, as well as LTCM and other setbacks, resulted in a disappointing first year of business for the

“The collapse of the hedge fund LTCM really sticks in my mind. In the course of a week the tone at the press conferences changed completely and I was surprised at the speed with which UBS reacted to this event and the management of the time accepted its responsibility.”

Alice Ratcliffe, former Reuters Swiss correspondent

new firm but performance improved from late 1999. Despite doubts over its private banking and asset management divisions, UBS had good reason to be upbeat about the outlook. By 2000, its management team was able to transfer its attention from integration work to promoting the integrated business model that underpinned their global aspirations.

UBS made rapid strides towards its objectives in that year. Not only did the firm post a first set of strong financial results, but, in May 2000, it also listed its global registered shares on the New York Stock Exchange. This was a first step towards acquiring the US broker, PaineWebber, a move that transformed the scope and scale of the bank's wealth management and investment banking activities in America.

The PaineWebber acquisition



Less than three years after the transformational merger between SBC and Union Bank, the new firm embarked on a momentous venture, the acquisition of PaineWebber. Like UBS itself, the American firm could trace its origins back to the nineteenth century, but its rise to prominence as the country's fourth largest securities broker was more recent.

PaineWebber continued to expand right up to its acquisition by UBS. The purchase of certain Kidder Peabody units in 1994 was followed by the acquisition of J.C. Bradford & Co. in April 2000. The latter added 900 brokers and \$46 billion in client assets to PaineWebber's existing 7,600 brokers and \$452 billion in client assets.

For UBS, these strengths promised to plug the gap in the new firm's US presence. For even after the SBC-Union

Bank merger, the firm's US footprint in investment banking and private wealth management remained modest or marginal. These considerations led UBS's management to PaineWebber. Although the American house was known for its coyness towards suitors, UBS was able to convince its management that it offered the right vision and cultural environment to make an integration work. Applying the skills and lessons gathered during SBC's acquisitions and the 1998 merger, UBS proceeded with the PaineWebber deal in the first half of 2000.

UBS therefore started the new millennium with a huge step forward in its global expansion strategy. Before the watershed deal, UBS was still essentially Swiss, with two-thirds of its almost 50,000 staff based in its home country. The advent of PaineWebber dramatically changed this demographic and cultural balance. The number of non-Swiss UBS employees rose to more

PaineWebber

Founded in 1880 in Boston, Paine & Webber survived the various economic and financial crises of the late 19th century to grow into a thriving business. As William A. Paine, the firm's founding partner and leading protagonist, remarked about the severe financial crisis of 1893, "we had spent thirteen years gaining people's confidence and developing resources for just such a struggle; and when it came victory was not so difficult for us as it was for many richer concerns."

One year before the foundation of Paine & Webber, Charles C.

Jackson and Laurence Curtis had joined forces to offer brokerage services to the citizens of Boston. Although their firm and that of Paine & Webber had offices in the very same street, it was not until the early 1940s that they were united in the merged entity of Paine Webber Jackson & Curtis.

Both firms emerged from the Wall Street Crash of 1929 and the Great Depression with their revenues and confidence severely dented. This may have prompted the first discussions between the two firms in 1939. The resultant merger was

concluded on 29 June 1942, hastened by the outflow of junior partners and staff into the armed forces now that America was at war.

After the war, the activities of Paine Webber Jackson & Curtis expanded rapidly on the back of the burgeoning economy. From 23 branch offices at the time of the 1942 merger, the firm grew to 30 offices in 1955 and to 45 offices (with more than 700 investment brokers) ten years later. After the firm's move from Boston to New York in 1963, it embarked on an

ambitious programme of expansion. The changes, mergers and acquisitions that were undertaken along the way furnished the firm with a presence in fixed-income instruments, a closed-end investment company, and an investment research and advisory function. By 1980, the reach of Paine Webber Jackson & Curtis extended to 161 branch offices in 42 US states with a further six offices in Europe and Asia. At the same time, its popular advertising slogan "Thank You, PaineWebber" spread its name well beyond its substantial client base.



than 40,000, accounting for fully 58 per cent of the total workforce. In one bold stroke, the bank had achieved a goal that had eluded both its predecessor firms – a substantial presence in the world’s most important financial markets.

PaineWebber also shifted the balance of UBS’s wealth management business. The American firm’s focus on private wealth management and its success in attracting more affluent clients raised the proportion of US client assets in UBS’s total portfolio to almost half, compared to a bare four per cent before the acquisition.

UBS’s investment bank also benefited from the acquisition. PaineWebber brought to the table a solid track record in US equity research, an equities and fixed income business, and, notably, a top-ranking mortgage-backed securities unit. At the same time, the

acquisition made UBS more attractive as a destination for key talent in both investment banking and wealth management. With effective hiring helping to bolster its position, UBS Warburg’s share of the US investment banking fee pool rose from 1.9 per cent in 1999 to 5.4 per cent in 2003. These results comfortably exceeded the combined market share of UBS and PaineWebber between 1997 and 1999.

The PaineWebber acquisition qualified as transformational on several counts. It filled a strategic and regional gap in the wealth management business. It moved UBS Warburg forward in the US, helping to quash rumours that UBS would sell its investment bank. It even added an American element to the firm’s corporate culture. Perhaps less obviously, PaineWebber’s expertise also proved useful to UBS’s European Wealth Management initiative, another key strategic move.

UBS present and future



Since the 1998 merger, UBS has made enormous strides in all its strategic markets. In doing so, it has reaped the rewards of a process of transformation that started in the late 1980s. By 2001, it had melded a carefully selected number of antecedent firms into a single integrated enterprise with a common set of aspirations and values. The outward expression of this shared identity was the firm's introduction of a unified brand in mid-2003.

As a measure of its success in creating a truly global firm, UBS now earns the greater share of its operating income outside Switzerland. Its workforce too is distributed globally, with a very sizeable presence in the world's largest financial market, the US. In terms of invested assets, UBS is the world's largest wealth manager. And, in little more than a decade, it has built a bulge-bracket global investment bank which is on course for further expansion.

With growing frequency, UBS's achievements are recognized by the global financial services industry and media. The firm has evolved a common culture that draws on important elements from all its various predecessor organisations. At the same time, it is working actively to promote its brand across the world, not least in the key US market.

UBS has eliminated the strategic gaps identified by the management of its antecedent banks. It now has the capabilities, capital base and confidence for further substantial growth mainly by organic means, but also aided by carefully chosen acquisitions. Several recent additions have helped UBS to expand its Investment Bank, as well as its Wealth Management presence in Europe. Above all, UBS remains focused on building an integrated business and a joint culture, both essential ingredients for the continued success of the firm.



“In June 2003, the bank adopted the single UBS brand for all its major businesses in the world. The successful implementation of this initiative illustrates the ‘one firm’ philosophy that is integral to UBS. In all these activities, client focus has been the main driver of expansion and innovation.”

The Banker, 1 September 2004

“We are determined to be recognized as the best global financial services company. We will earn this recognition from clients, shareholders and professionals through our ability to anticipate, learn, and shape our future, while always delivering the very best quality in all that we do. We share a common ambition to succeed.”

UBS “Our Vision”



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