VALUE REPORTING FOUNDATION

INTEGRATED THINKING PRINCIPLES



Case study



Value Reporting Foundation

The Integrated Thinking & Strategy Group (a special interest group of the Value Reporting) Foundation's Business Network) brings together some of the world's most innovative companies so that they can collaborate, learn from each other, challenge each other's thinking and share leading practices between themselves and those who follow them.

Integrated thinking is engrained in the discipline of making a deliberate and coordinated effort to connect the organization's strategy, governance, performance and prospects. It is the active consideration by an organization of the relationships between its various operating and functional units and stores of value - which the Value Reporting Foundation refers to as 'capitals' in the International <IR> Framework that the organization uses or effects to create value over the short, medium and long term.

It is used by businesses to improve decision-making, accountability and communication. It is therefore essential to the development of strategy and provides a valuable connection to the board.

The project aims to assess how integrated thinking is embedded within organizations through a series of interviews to understand:

- What led the organization to embed integrated thinking
- How they used integrated thinking to shape their strategy
- How integrated thinking has helped them deploy their strategy
- What the benefits have been.



Overview 30-second snapshot into integrated thinking at UBS

UBS provides financial advice and solutions to private, institutional and corporate clients worldwide, as well as private clients in Switzerland. Headquartered in Zurich, Switzerland, the firm is present in many major financial centers worldwide.

UBS aims to be a sustainability leader. With a long-term focus, it targets sustainable profit growth and responsible resource deployment, while striving to balance growth opportunities with cost and capital efficiency. In this way, it seeks drive attractive risk-adjusted returns and sustainable performance.

These intertwined concepts of sustainability and long-term value creation are well-established in its culture and understanding and are a fundamental part of the integrated thinking journey.

In 2021, UBS defined its purpose as *Reimagining the power of investing. Connecting people for a better world,* underscoring its commitment to integrating sustainability into its DNA and helping clients transition towards a more sustainable future.

Deed dive into integrated thinking at UBS

10 minute read

This case study summarizes the journey of integrated thinking at UBS and was developed through the conversations that Christian Leitz, Lead Corporate Responsibility, *UBS*, Claudia Schenker, Business Strategist - Corporate Responsibility, *UBS* and Robert Ramer, Business Strategist - Corporate Responsibility, *UBS* had with Professor Cristiano Busco, *LUISS* and *Roehampton University*, and Dr Irma Malafronte, *Roehampton University*.



Deep dive What led UBS to embed integrated thinking?

The concepts of sustainability and long-term value creation have long been part of UBS's culture and ways of working. In the wake of the financial crisis, the board and executive management team took a conscious decision to embed long-term thinking as one of the core principles underpinning the way **UBS** would operate.

Acting as one team and overcoming siloed thinking is also a prerequisite for successfully implementing the sustainability agenda and ensuring a strong business performance over the long term. As Axel A. Weber, Chairman of the Board of Directors, pointed out in 2021:



We adopted sustainable thinking early on and have, for many years, been committed to creating long-term value for clients, employees, investors and society"

Axel A. Weber, Chairman of the Board of Directors



What led UBS to embed integrated thinking?

As a financial institution, UBS has a clear opportunity to create positive impact by providing sustainable investment and financing opportunities. Indeed, it is now expected by many clients, investors and regulators. Both the opportunity and expectation have steadily gathered pace over the past few years:



We have been working with many clients in the sustainability space for decades. As awareness has grown, especially in the past few years, it has become ever more important from both a business and client perspective. Because of that experience, we are a leader in this area. We also know that we can't stand still if we are to remain relevant for clients and ensure future profitability. That means continuing to expand our client offering to provide them with the solutions they need to meet their sustainability goals, and proactively supporting them in their transition toward sustainable ways of doing business."

Ralph A. J. G. Hamers, Group Chief Executive Officer

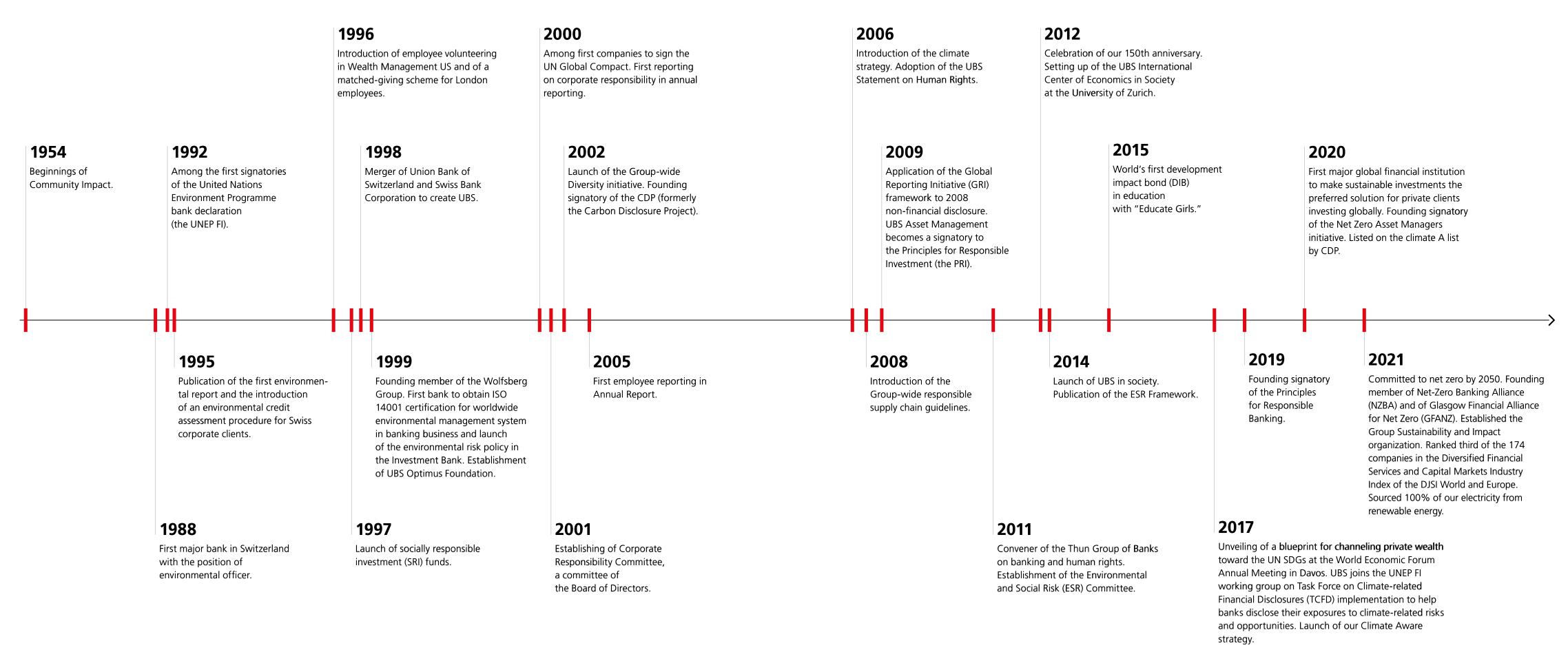


How did UBS approach integrated thinking?

UBS first embarked on sustainability reporting in 1995 with the publication of an environmental report. In 2000, when it became a founding signatory of the UN Global Compact, UBS established a committee at Board of Directors' level which, as per the committee's original charter, came with the clear goal "to determine the company's policy with respect to corporate responsibility and sustainable development".

The committee thus became a pivot for advancing integrated thinking across the firm and it has been considering all key topics pertaining to long-term value creation ever since, including the way in which the firm reports on its sustainability strategy and achievements.

Five years later, in 2005, UBS augmented its reporting with the inclusion of its first employee reporting in the annual report, stressing the crucial role of employees in achieving the firm's organizational goals. For a few years UBS also published a standalone integrated report. In 2008 it applied the Global Reporting Initiative (GRI) framework to its sustainability reporting for the first time and had those disclosures externally assured, something it has continued to do ever since. Today, the reporting structure includes an annual report, a sustainability report, and a climate report (integrated in the sustainability report and also a stand-alone document).



> Refer to ubs.com/history for information about the history of UBS

Figure 1
For a detailed view of the model please consult pages 16-17 of <u>UBS Sustainability Report 2021</u>

How has integrated thinking helped UBS articulate its strategy?

Developing a strategy always means considering different perspectives. And to do that, various experts and stakeholders from within the organization, and outside, need to be heard and understood. At UBS, long-term success is highly dependent on client satisfaction, so naturally they are placed at the forefront of our purpose, *Reimagining the power of investing*. *Connecting people for a better world*, and sit at the heart of our strategy.

Whether a client is a wealthy individual, a retail client, a corporate or an institution, UBS aims to bring them the best of its capabilities from across the firm to help them meet their financial goals.

By acting as one firm, with a shared culture, UBS aims to be successful through its business activities in its four business divisions (Global Wealth Management, Asset Management, the Investment Bank and Personal & Corporate Banking). Achieving these ambitions directly impacts investors, clients and employees, as well as society and the environment by delivering a great client experience, for instance, providing a positive work environment for employees, or by contributing to society as a taxpayer and attractive employer.

How has integrated thinking helped UBS articulate its strategy?

When it comes to helping clients realize their sustainability ambitions, UBS wants to be the financial provider of choice for clients who wish to mobilize capital toward the achievement of the 17 UN Sustainable Development Goals and the orderly transition to a low-carbon economy. This commitment to sustainability is central to UBS's purpose. It is all about making an impact, so to amplify that impact the firm focuses its efforts on the *planet*, *people* and *partnerships*.

While clients are a key focus of UBS's strategy, there are a number of other highly significant stakeholders, not least the firm's shareholders. Pursuing longer-term, sustainable returns for clients also has the potential to enhance UBS's own returns, thereby driving better outcomes for the firm's own shareholders. Alongside this sustainable growth agenda, UBS also aims to improve shareholder returns by growing and leveraging its unique, integrated, and complementary business portfolio and geographic footprint.

The end result is a clear strategy that provides direction for the entire organization: maintaining a sustainable business model, aiming for continuous success as an industry leader and at the same time ensuring everyone within the organization understands and lives up to the purpose statement.

Our approach to long-term value creation

As of or for the year ended 31 December 2021 What is put into the equation What we do The results we deliver How our stakeholders benefit The impact we create **Business Activities** Output Outcome Input Impact Financial capital Investors • USD 7.5 billion net profit attributable to shareholders • 15.0% common equity tier 1 (CET1) capital ratio • USD 0.50 proposed dividend per share for the 2021 financial year • Increased value for our investors through attractive risk-adjusted returns and sustainable performance, targeting cost- and capital-efficient growth • 4.24% CET1 leverage ratio • USD 2.06 diluted earnings per share • USD 2.6 billion of our shares were bought back in 2021 • 5.7% going concern leverage ratio • 17.5% return on CET1 capital • We intend to buy back up to **USD 5 billion** of shares by the end of 2022 • USD 104.8 billion total loss-absorbing capacity • USD 4,596 billion invested assets • USD 45.3 billion CET1 capital • 73.6% cost / income ratio Reimagining the power of investing. Clients Connecting people for a better world. • Streamlined and simplified interactions through digital tools and platforms, • Long-term relationships built on mutual trust and integrity • An outstanding value proposition for our clients – understanding their needs Relationships and intellectual capital such as UBS Neo, key4 and wealth management platforms and expectations, focusing on convenience and personalization, and serving • Access to tailored financial advice, solutions and services from around their best interests are at the heart of what we do • A USD 4.6 trillion investment ecosystem, bringing thought leadership, products the globe; striving for attractive and risk-adjusted investment and investable solutions to individuals and businesses around the world • Securing a better future – we do this by providing funds to help finance the performance • 160 years of experience in banking Client promise Vision economic transition toward a more sustainable tomorrow • Partnership for a seamless client service accompanying clients all through their lives • Improved satisfaction through the offering of personalized, • Presence in major financial centers worldwide • Bridging between generations – as an organization in constant evolution, we customized and relevant products and services, as well as highly • Established procedures and policies to handle, process and incorporate feedback Convene THE global ecosystem Personalized stay relevant by adapting to the emerging needs of future generations – • ~10% of our revenue (USD 3.9 billion) spent on technology in 2021 appreciated and well-perceived support during the pandemic and any potential complaints striving and working toward being their trusted advisor of choice for investing where thought • Automation, simplification and digitalization of processes • Services accessible across various channels – traditionally through our • Providing high-quality execution, market access and liquidity, bespoke Relevant branches, and also increasingly through our constantly evolving financing, global capital markets, and portfolio solutions, delivered as one firm • Dedicated research, differentiated insight and content offerings, and leadership is impactful, people remote and digital offering and with selected external partners bespoke solutions On-time and ideas are connected, and Seamless opportunities are brought to life. Employees Human capital • An inclusive culture where diversity in gender, race, ethnicity and other • Numerous business and employer awards that highlight our innovative • Strong talent management processes mean employees can grow and • 71,385 employees (FTE) in 50 countries solutions and expertise develop, building satisfying careers factors is valued and appreciated Strategic imperatives • 9,363 new hires in 2021 (>1,700 in junior talent programs), and a • Employees are sought-after talent as a result of our multi-faceted approach • A commitment to equal pay, confirmed by equal salary certifications in multiple • Employee flexibility, including hybrid work options, promotes engage-Clients, Connections, Technology to talent development and learning workforce with an average of 8 years of service ment, increased productivity and commitment Contributors • 60% men, 40% women, with an aspiration for women to hold 30% of • An engaged and committed workforce, as evidenced by regular feedback and • First wave of the Agile@UBS program that will transform how we work • Employees worldwide benefit from working for a high-quality, responsible Simplification & Efficiency Director level and above roles by 2025 survey scores and increase our speed in finding solutions for clients Focus • A high-performing workforce driven to create positive impact for clients, • Women hold **26.7%** of Director and above roles • Health and well-being initiatives foster resilience and ensure we • A workplace that offers flexibility, career growth and holistic support for Culture colleagues, and their communities maintain a cohesive culture employees' health and well-being • Ethnic minorities hold **20.1%** Director and above roles in the US and **21.3%** • A collaborative culture and inclusive work environment • Wide recognition as an employer of choice • Training and career development to help ensure employees are ready for a • >1 million learning activities build skills, digital and agile capabilities • Commitments to fair pay and people management ensure employees more agile future have equal opportunities to achieve success What we offer Social and natural capital Wealth and asset management services, along with personal, Society and environment corporate and investment banking capabilities • Committed to net zero across all operations (scope 1, 2 and 3 emissions) by 2050 • **USD 251 billion** in sustainability-focus and impact investments (5.5% of total • 9.9% exposure to carbon-related assets of our total customer lending • Impact of our net-zero commitment invested assets) exposure • 221 employees (FTE) globally work in the field of sustainability and impact • Setting standards across the industry, challenging ourselves to raise the • **USD 11.6 billion** private clients money in SDG-related impact investments • 92% total reduction of our greenhouse gas footprint from the 2004 bar and inspiring others to join • UBS Optimus Foundation: a foundation that makes it possible to engage baseline year in impactful philanthropy, which is linked to a global wealth manager, the • USD 59 million donated to local programs by UBS, including affiliated • Contributing as a taxpayer and an employer UBS Global Philanthropy Services team and several donor-advised fund • Almost **680,000** young people and adults across the regions in which • Within Switzerland, our size, scale and reputation contribute to economic we operate benefited from strategic community investments • 140,478 hours invested by UBS staff in community projects (54% of hours stability and reliability • Sustainability and climate risks standards governing client and vendor • **USD 108 million** in grants by UBS Optimus Foundation to carefully • Supporting the transition to a low-carbon world relationships worldwide selected programs • USD 161 million donations raised by UBS Optimus Foundation in 2021 • Helping clients and employees to maximize their philanthropic impact • An ISO 14001-certified environmental management system • 4.6 million vulnerable people received support thanks to UBS Optimus (including USD 14.7 million of matching funds donated by UBS)

• 100% of electricity sourced from renewable energy

Foundation

Figure 2

For a detailed view of the model please consult pages 4, 5 and 6 of UBS Annual Report 2021

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Our purpose is the starting point for everything we do"

Ralph Hamers, Group CEO

How has integrated thinking helped UBS deploy its strategy?

As highlighted above, the bank's purpose sits at the centre of its business strategy.

To bring UBS's purpose to life, fulfill its promise (to clients and other stakeholders) and achieve its vision, there are five clear imperatives for the bank. Each one is underpinned by clear strategic initiatives that have been developed to address industry trends, build on strengths, overcome challenges, and create a unique space to grow. They are:



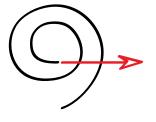
Client, connections, contributors – delivering the power of investing



Focus – play where we are positioned to win



Technology – make technology our differentiator



Simplification and efficiency – increase ease of doing businesses and enable our journey



Culture – mobilize employees behind our future vision and act as one firm

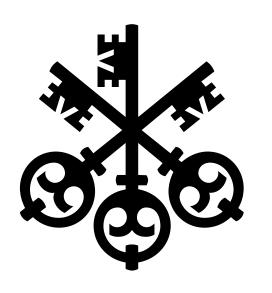


How has integrated thinking helped UBS deploy its strategy?

UBS's purpose was defined in 2021 applying a bottom-up approach, which was kicked off in November 2020 by its new CEO, Ralph Hamers. It was his ambition to identify the purpose of UBS and he played a crucial role in mobilizing the organization to find the right words. A firm-wide survey was conducted, giving everyone an opportunity to participate and express themselves on issues such as what UBS stands for, what is really important, as well as what critical skills and capabilities does the organization need? The bank also explored and researched, and listened to experts, thought leaders and employees. It collected over 400 pages of interview transcripts, 20,000+ comments from employees and 50,000+ answers to surveys. It also looked at trends and competitors. These significant efforts had positive consequences:

- 1 A feeling of belonging for many of those employees who were involved and integrated in this process
- 2 Tangible leadership by the bank's new CEO during a period of widespread uncertainty precipitated by the pandemic
- 3 A clear purpose helped significantly in defining the strategy and providing clear guidance for all stakeholders.

How has integrated thinking helped UBS deploy its strategy?



Our Pillars

What we're built on.

Capital strength

A balance sheet for all seasons

Simplification and efficiency Make it easy to do business

Risk managementAnticipate and handle risks effectively

Our Principles

What we stand for.

Client centricity

Clients are at the heart of everything we do

Connectivity

Create success by connecting people, ideas and opportunities

Sustainable impact

Act today with tomorrow in mind

Our Behaviors

How we do it.

Accountability with integrity

Take ownership

Collaboration

Work as one UBS

Innovation

Improve every day

At UBS, a diverse workforce, inclusive culture and equitable practices, are all crucial to long-term success. Employees are respected and valued for their differences. UBS's strong and inclusive culture is grounded in the firm's three keys to success: Pillars, Principles, and Behaviors. They articulate what we're built on, what we stand for and how we do it, demonstrating the integrated way in which UBS looks at its core activities, principles and actions, taking a holistic approach, rather than looking at each of these as separate silos or boxes. Another aspect of UBS's approach towards integrated thinking is its Board of Directors' Corporate Culture and Responsibility Committee (the CCRC), which ensures that topics related to corporate culture, responsibility and sustainability are considered in an integrated way. For example, the announcement of the firm's net zero commitment on climate, and beyond, in April 2021, which integrated not just our laser-focus on climate but also topics related to diversity, equity and inclusion. At management level, integrated thinking is fostered through the firm's sustainability and impact strategy. Oversight and responsibility for these topics is delegated by the Group CEO to the Group Executive Board lead for sustainability and impact, Suni Harford. She is responsible for setting and driving the consistent implementation of the firm's sustainability and impact strategy with the business divisions and group functions.

To foster stakeholder engagement, several initiatives are in place for the different stakeholder groups (clients, investors, employees, society) around stakeholder needs, value proposition, key topics discussed and engagement.



How we create value for our stakeholders

| Stakeholder group | Stakeholder needs: what our stakeholders expect from us | Value proposition: how we create value for our stakeholders | Key topics discussed: what was important to our stakeholders in 2021 | Stakeholder engagement: how we engage with our stakeholders |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Clients | Advice on a broad range of products and services from trusted advisors | Delivering tailored advice and customized solutions, using our intellectual capital and digital platforms | Investment performance in light of the continued low- interest-rate environment coupled with the threat of rising inflation Holistic goal-based financial planning | Individualized client meetings |
| | A mix of personal interaction with our advisors in combination with digital service anywhere and anytime (convenient, seamless digital banking is the expectation) Top-quality solutions and the highest standards in terms of asset safety, data and information security, confidentiality, and privacy A combination of global reach and local capabilities | Building long-term personalized relationships with our clients | | Requests for regular client feedback, feedback monitoring and complaint handling |
| | | Developing new products, solutions and strategic partnerships in response to clients' evolving needs, including in the digital age | Sustainable finance and investing opportunities | Primarily virtual client events and conferences, including information on key developments and opportunities |
| | | | Data privacy and security | Client satisfaction surveys |
| | | Providing access to global capital markets and bespoke financing solutions | Products and services, including those around digital banking | Increasing levels of digital interaction with clients |
| | targeting positive investment outcomes Competitively priced products and services, risk management, and liquidity | Meeting increasing sustainable investment and private markets demand from clients | The need for even more personal advice following the start of the COVID-19 pandemic | |
| Investors | Disciplined execution of our strategy leading to attractive capital returns through dividends and share repurchases | Executing our strategy with discipline and agility as the external environment evolves, while aiming to deliver cost- | Strategic plans and updated targets following the change of CEO in late 2020 | Financial reports, investor and analyst conference calls, and webcasts, as well as media updates on our performance or other disclosures |
| | Comprehensive and clear disclosures on quantitative and qualitative data necessary to make informed investment decisions Recognizing and proactively addressing strategic opportunities and challenges | and capital-efficient growth | Structural growth in and return potential of our businesses | |
| | | Providing transparent, timely and reliable public disclosures | Cost efficiency and ability to generate positive operating leverage | General meetings of shareholders Investor and analyst meetings |
| | | | Ability to protect or even grow revenues in a low-for-longer interest rate environment | Digital interactions with investors as a result of COVID-19 pandemic restrictions, with limited impact on pre-pandemic meeting schedules and participation, given reliable virtual solutions; the 2021 Annual General Meeting was held virtually |
| | | | Incorporation of ESG factors into the business model, compensation and risk management | |
| Employees | A global, world-class employer, with the expertise and breadth of opportunity to empower people to develop successful careers | Hiring great talent and investing in development, now and for the future | Our corporate culture, aligned to purpose and enabled by our three keys to success | Regular CEO and GEB communications and events, along with senior leadership, regional and functional sessions with employees |
| | A collaborative, engaging, supportive and inclusive workplace culture | Effective, fair people management and compensation policies and practices | A clear commitment to fair pay A performance management process that supports our | Employee surveys and other virtual employee engagement activities |
| | An environment that provides a sense of belonging and the opportunities to positively impact clients, shareholders and | A strong workplace culture that aligns with our purpose and values, enabling employees to develop their careers and unlock their full potential | strategic priorities Hybrid working options for employees | Group Franchise Awards and the Kudos peer-to-peer recognition program |
| | society Skill and career development opportunities, including future-skills development, and rewards for performance and impact | Holistic support, including health and well-being initiatives, that empowers employees and fosters resilience Comprehensive workforce data analytics enable making better and faster decisions to meet business needs | Strategic focus on diversity, equity and inclusion | Health and well-being offerings, employee volunteering and network opportunities, flexible and hybrid-working arrangements |
| | | | A more agile future; accelerating new ways of working | |
| Society | Facilitation of economic development that is sustainable for the planet and humankind | Promoting significant and lasting improvements to the well-being of communities in which we operate | Sustainable finance Our climate strategy | Community investments and partnerships with social institutions |
| | Maximization of our positive effects and minimization of | Taking an active role in the transition of our economy | Our client and corporate philanthropy efforts | Interaction with NGOs |
| | any negative effects on society and the environment Proactive management of the environmental and societal impacts of our businesses | toward environmentally and socially sustainable solutions Advising clients to align their business models with ESG parameters and the UN Sustainable Development Goals | Reducing inequalities in our local communities | Participation in forums and round tables, as well as industry-, sector- and topic-specific debates |
| | | | | Dialogues with regulators and governments |
| | | | | Support of COVID-19-related aid projects across our communities |

Figure 3

For a detailed view of the model please consult page 38 of <u>UBS Annual Report 2021</u>

How has UBS benefited from integrated thinking?

For UBS, embedding sustainability cannot work without embedding integrated thinking, as the two are inextricably linked. The process only works if the different parts of the organization are connected and thinking happens in an integrated manner.

It helps foster long-term thinking as a natural direction of the business. It adds value, both in the long term and the short term. Integrated thinking favours an agile way of working that means the firm is set up, not in silos, but rather with different teams working together and ensuring that the necessary capabilities are available when needed.

The main challenge to such an approach appears to be the need to balance these intrinsic objectives with certain external imperatives. Regulatory requirements that may sometimes create obstacles to integration, especially in a highly regulated industry like banking, are a case in point. Moreover, integrated thinking requires an investment in the organizational culture, to ensure the various parts of the organization move in lock-step, so that people do not feel as if they are at different stages in the journey.



The Value Reporting Foundation is a global nonprofit organization that offers a comprehensive suite of resources designed to help businesses and investors develop a shared understanding of enterprise value — how it is created, preserved or eroded over time. The resources — including Integrated Thinking Principles, the Integrated Reporting Framework and SASB Standards — can be used alone or in combination, depending on business needs. These tools, already adopted in over 70 countries, comprise the 21st century market infrastructure needed to develop, manage and communicate strategy that creates long-term value and drives improved performance.

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