Good evening and thank you Gareth for inviting me to speak to you this evening. My name is Eric Barnett and I am the Managing Director of SG Hambros Bank, which is a UK bank owned by Societe Generale, the major French Banking group. We specialise in Private Banking, which for the uninitiated, is about managing rich peoples money, and hopefully making them even more wealthy!

It is a real pleasure to be back here for one evening, as I am also like most of you I think, a Graduate of Cass Business School, or, as it used to be known when I was here, City University Business School, or CUBS. I left the school in 1996, and when I left, I remember my year being told by our Corporate Strategy lecturer (whose name I cannot remember unfortunately) that the business world moved so fast that the knowledge he was imparting to us would only be valid for about 18 months and that if we did not keep up, we would very quickly become a liability to our organisations. I am ashamed to admit that I don't think I have read a single book on management since that time, so given that by now I must be such a huge liability to my business and the City as a whole, I am rather reluctant to stand here and tell you any pearls of wisdom that I might choose.

So I had some difficulty deciding on what to speak about this evening, especially given the short time frame (I think I have about 15 minutes). Although talking about myself would be absolutely fascinating for me, I suspect I would be alone in this reaction and equally, I am not sure how many of you would be really interested to hear about the rather archane world of Private Banking.

So, whilst recognising that much of my value here tonight is that fact that I have paid the bar bill, what I did think might be of some interest to share with you is my modest experience of cross border mergers acquisitions in the European Banking industry and specifically the cultural difficulties these transactions present. This is obviously a very topical issue given the current battle between Barclays and the Royal Bank of Scotland consortium for the take-over of ABN Amro. I think today RBS formally made its bid announcement and this long running and very complex battle has triggered strong market expectations of major consolidation within the European banking industry. The recent acquisition of Capitalia by Unicredit, which has created a new Italian champion, has fuelled these speculations, as has indeed speculation that my organisation, Societe Generale would seek a European partner (possibly also Unicredito) for its future. The share price of SG alone has risen in the order of 15-20% in recent months on the back or such speculation.

However, the general view has always been that M&A activity in the European banking industry is made particularly difficult, first because of the protectionist behaviour of many European countries, and second because of the difficulty of integrating organisations with different cultures. As we all know, most acquisitions are seen to have "failed" – whatever that means. In a very different industry, the recent and costly collapse of the Daimler-Chrysler marriage, considered at the time as "made in heaven", is a strong reminder of the challenges of any M&A transaction. But I think this is even more true in banking, where until recently those deals that have happened have tended to be at a national level, such as RBS' acquisition of NatWest, or in France, BNP's acquisition of Paribas. At this national level, one can see the logic (even if the reality often disappoints) – opportunities to rationalise branch networks and other costs, a common language and a better chance of a compatible culture. Even today, with a theoretically open European market, national mergers in the banking sector is the route still seemingly preferred by many governments, both because of a desire to create "national champions" and because of the key role the major

retail banks play in domestic economies. Just a couple of weeks ago, a report stated that the newly elected French President, Nicolas Sarkosy, would prefer SG not to merge with a non French competitor. I am not sure if he actually said it, but the markets felt it likely that he thought it and sent SG shares down accordingly.

So in this environment, the emergence of big cross border European banking mergers is really quite an exciting departure from recent history, even if analysts have long predicted its emergence in the end. The challenges will be huge – different language, very different national and business cultures etc, whilst on the face of it, for those on the outside, the benefits are less obvious. No doubt there are costs to be cut, duplication of management to be eliminated, synergies to be had from additional product sales. But, I have a sneaking suspicion that unless management have very clear objectives as to what they want to gain from these deals, many of them will also be classed a failure. As an obvious example, with a cross border deal, there is no duplicating branch network to be culled, so one clear benefit of a domestic deal falls away.

In this context, I would like to share with you some of the experience that I have gained by being involved in the acquisition of Hambros Bank by Société Générale in 1998, and then in the following integration of the new entity, SG Hambros, to Société Générale. On a very modest scale, this was also a cross European border transaction, and although I am not pretending that the size of this deal made it in any way comparable to an RBS/ABN type transaction, I think some useful lessons can still be learned.

Considering the short time we have, I am going to concentrate on two observations:

- First, timing of the integration, and
- Secondly, the structure of the new organisation.

There is naturally a strong temptation for any buyer to rush to take control of a newly acquired company. Whether the acquisition is friendly or hostile, the excitement of closing the deal and the pressure to produce results mean that the buyer will immediately want to make an impact. This is also a way to assert control and dominance.

However, there are some pitfalls in going too fast in taking control of the new organisation:

- Firstly, replacing in a hurry the management and senior staff of the acquired company may result in losing the very people who know where the bodies are buried. So much corporate memory will be lost. It may also send an unsettling message to the rest of the staff, who may for example fear for their job security. Banking is a business where the main assets go home every night and whilst it is necessary to keep people on their toes and probably reduce numbers in the case of a large scale merger, it is also essential that key employees are retained and motivated.
- Second, applying without thought to the acquired company the rules, processes and decision making capability of the buyer will almost certainly clash with the existing culture of the acquired organisation.

So the point to make is that "tortoise may win over the hare" in the long run and that there are benefits to be had from a progressive, structured but measured integration process.

In our case, in 1998, Hambros Bank and Société Générale could not have been more different in terms of organisation and culture. One was a British, City based and blue-blood merchant bank, managed as a boutique. It was the type of bank that barely exists now. The other was French, which in itself can be a hurdle – but I won't go down that road! - , and was mainly comprised of a large retail business throughout France. Moreover, and this was key to understanding its culture, it had only been privatised in 1987.

Fortunately, and in my view correctly (though I would say that wouldn't I?), the decision was taken to keep most of the existing management of Hambros Bank. Why? Firstly, this ensured business continuity and stability. This is particularly important in private banking where the aim is to build long-term relationship with clients and continuity of contact is key. I don't want this to come over as too cosy, but in addition, a reassuring message was sent to the rest of the staff by this decision, quickly creating a "back to business" atmosphere.

In addition, it was decided to preserve the British culture of SG Hambros and to avoid flood of SG Group employees. French management decided that Anglo-Saxon businesses should be run by Anglo Saxons (as they call us). Consequently, not only was existing management largely retained, but new external hires often came to UK organisations with a similar culture.

It is only gradually that the management of the SG Hambros has changed, although one could justifiably question whether 10 years is not a tad long in anyone's book! Over time, the arrival of SG employees has changed the culture of the organisation and the result today is a new culture, which is a curious mixture of "Britishness" and "Frenchness". SG Hambros has become a British private bank within a French group. In support of this conscious decision to retain the Britishness of the business was the decision to retain the Hambros brand, albeit after SG in SG Hambros. Different management have different views on this question of universal v local brands. HSBC have changed all their subsidiaries to the HSBC, whilst on the other hand, RBS still keep the NatWest stable of brands, including our main competitor, Coutts. It will be interesting to see what they do with ABN AMRO if they get it. From my perspective, at least in the short term, the decision to keep the Hambros name was critical to winning over staff and clients, even if I am sure the teams in SG's group marketing departments regard it as an unnecessary distraction.

The point I am trying to make is not that a slow integration guarantees success – it clearly doesn't in many cases and here we can think again of Daimler-Chrysler, which took years before collapsing. However, each case needs to be judged on its own merits and in the right circumstances, a slower pace can increase the chance of long term success. Of course this requires a patient shareholder and a favourable economic environment, which is not a combination always available. In fact, in these mega buck mergers such as being fought over ABN AMRO, I suspect the analysts and institutional shareholders will be expecting quick returns to justify the price being paid.

The second observation that I would like to make regards the structure of the new organisation. I seem to remember from my time at CASS that it is a well known business school maxim that the structure of the organisation should follow its strategy, and not the other way around.

In acquiring Hambros Bank, one Societe Generale's key objectives were to enter the UK wealth management market and to extend its existing services to this country. The strategy was to build a platform in a new market, learn another way of offering private banking and also understand new services, for example trust, a concept unknown in France. This learning process could only have happened by preserving the structure and existing British culture of the acquired organisation, which is what was done.

10 year on, we are finally in the process of completing the last stage of the integration of SG Hambros into Société Générale and this now requires a new structure, which will be a matrix of country management and business lines. For example, teams in London will now often have a dual reporting line between local management and business line management, which may be in London, but could equally be in Paris.

My second conclusion therefore is that the structure applied to the organisation being purchased should vary according to the objective of the acquirer. This may seem an obvious thing to say but flexibility is required on the part of the buyer and in some cases, it may be relevant to preserve an existing structure in order to achieve objectives and to retain what has been bought, often at great expense (the Barbarians are not always at the gate).

This is the end of our discussion, though I am of course happy to answer any questions, or simply to hear your thoughts. As mentioned, most mergers and acquisitions fail to meet expectations. Considering that we are going through an intense period of M&A activity, particularly with the powerful role of private equity at the moment, it is going to be very interesting to see in few years time the results of the current wave, particularly in the cross border arena. If this vogue finally does reaches the European banking industry it will be exciting to see how each acquirer will deal with the challenge of cultural and organisational integration. Perhaps we should meet again in a few years time to swap notes!

Thank you for listening.