

Merger-Hungry Italian Banker Wants Europe to Take Fences Down

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MILAN, May 11 — Few business executives are as determined to forge a single European market as Alessandro Profumo, the ambitious Italian banker who last year took over Germany's second-largest bank, HVB. Yet as he reflects on the cross-border foray of his bank, UniCredit Group, Mr. Profumo admits to being tripped up by age-old cultural differences.



Alessandro Profumo wants his UniCredit Group to compete with giants.

"Italians are warm and more emotional; Germans are more rational," he said in an interview at UniCredit's headquarters here.

The cultural divide between Milan and Munich made the merger harder than Mr. Profumo expected, with several German bankers quitting over what they called the authoritarian style of the Italians.

Such bickering will not distract Mr. Profumo from his larger ambitions: he wants to build a European Citigroup — a financial empire that can run with the giants of the United States and, someday, those who may dominate in China. Europe, he said, cannot create these heavyweights without more mergers.

But for other European chief executives eager to expand across their borders, Mr. Profumo's hard experience shows that building a pan-European enterprise requires luck, stamina, and a thick skin.

"Today, I would say there is resistance everywhere," he said. "This is one of the major potential issues for the future of each of the countries. We have to create a single market or we cannot compete."

The resurgence of protectionism in Europe has been most pronounced in the energy sector, where France and Spain are scrambling to thwart foreign takeovers of formerly state-owned utilities. But banking has not been immune to Europe's latest outbreak of economic nationalism.

The trouble is every country wants its banks to be the acquirers; few are willing to be acquired. Poland fiercely opposed UniCredit's plans to combine its Polish bank with a rival bank in Warsaw owned by HVB. The Polish government finally relented, but only under legal threat by the European Union and after Mr. Profumo pledged to sell 200 branches of the other bank.

At the same time that UniCredit was proposing its acquisition of the Munich-based HVB, Italy's central bank was trying to block a takeover of one of its banks by ABN Amro of the Netherlands. The central bank governor, Antonio Fazio, has since resigned and that deal went ahead.

"I was embarrassed," Mr. Profumo said of the episode, noting that Mr. Fazio had backed UniCredit's foreign expansion.

The contradictions do not end there. Italy's outgoing government noisily protested efforts by the French government to fend off a rumored takeover bid for the French utility giant, Suez, by Enel of Italy.

Yet when an Italian toll road operator recently proposed to accept a takeover bid by its Spanish counterpart, Italy's incoming prime minister, Romano Prodi — a committed European who once headed the European Commission — declared that he wanted to take a closer look at the deal.

"I am one of the few people who is saying this is a good deal," said Mr. Profumo, whose bank has an indirect stake in the toll road operator, Autostrade, and whose bankers helped arrange the merger.

A 49-year-old former McKinsey & Company consultant, Mr. Profumo joined the bank in 1994, when it was still known as Credito Italiano. Over the next decade, he turned it into a domestic force, acquiring a string of smaller Italian banks and building a franchise in Central Europe.

"Credito Italiano was a typical Italian nationalized bank before privatization, with lots of bureaucracy and poor disclosure," said John Raymond, a banking analyst at CreditSights, an equity research firm in London. "They changed very impressively and very quickly."

Last June, Mr. Profumo made his boldest move yet, acquiring HVB, a Bavarian bank formally known as Hypovereinsbank, for 15.4 billion euros (\$19.7 billion). With HVB, UniCredit gained control of Bank Austria, which has an even stronger presence in Central and Eastern Europe.

To the surprise of analysts, the German government said little about the takeover, though officials had expressed misgivings the previous year about a rumored acquisition of Deutsche Bank by Citigroup.

Analysts partly credit Mr. Profumo's forthright style. "Profumo comes across as an open guy," Mr. Raymond said. "He's not one of these old-generation Italian bankers, nodding but not saying much."

While UniCredit is still a middleweight compared with Citigroup, which has \$1.5 trillion in assets, or British goliaths like HSBC, it is a powerhouse on the Continent. With total assets of 780 billion euros (\$997 billion), it is seventh in the European monetary union. And investors are giving it a market capitalization of 66 billion euros (\$84 billion), ranking it third after Banco Santander of Spain and ING of the Netherlands.

With 28 million customers and 7,000 branches in 19 countries, UniCredit is a player from Italy to Turkey. It owns the largest bank in Austria and the second largest, by sales, in Italy and Germany.

But it is in the new Europe where the HVB merger created a titan. The combined company owns the largest banks in Poland, Bulgaria, and Croatia, and has a top-five position in nine Central and Eastern European countries. Its presence extends to Ukraine, Russia and the Baltic states.

Most of these countries are growing faster than Western Europe, and their citizens are becoming richer as their economies converge with those in the West. Banks in Central Europe were already selling for high prices. But Mr. Profumo, analysts said, was able to expand his franchise for a relative bargain, since HVB's value was depressed by its shaky loans in Germany.

In effect, Central and Eastern Europe give UniCredit a hedge against weakness in its two crucial Western markets, particularly Italy, which has recently had the most troubled economy in Europe.