

Osadchiy I. A.
applicant, The University of banking of the National Bank of Ukraine (Kyiv),
head economist of Prudential department of General Department of Banking Supervision of the
National Bank of Ukraine, Ukraine; e-mail: ivanosadchy3@gmail.com

THE MAIN DIRECTIONS OF THE REORGANIZATION OF BANKS IN UKRAINE

Abstract. One of the manifestation of globalization in the banking sector of the global financial system is a significant increase in the concentration of capital, expressed in such ways as restructuring, mergers and acquisitions of financial institutions. Topical is the development and practical application of methods and tools of reorganization of banking institutions that will contribute to the financial health and integration of the domestic banking system to the international financial sector. In the article indicated the main advantages and disadvantages of mergers and acquisitions in Ukraine, as well as factors activate the processes of reorganization and increasing the number of mergers and acquisitions in the banking sector. Displaying agreements on reorganization / purchasing banks in Ukraine in 2012-2013. In order to increase the level of capitalization of commercial banks proposed stimulate mergers and consolidation of small banking institutions. The main principles of state policy for the development of stable and effective banking system should be the principles of market and non-interference, voluntariness, competition.

Keywords: restructuring, mergers, acquisitions, banking sector, purchasing banks, reorganization of banks.

JEL Classification: G 21, G 24, G 34

Formulas: 0; fig.: 0, tabl.: 2, bibl.: 8

Osadchiy I. A.
здобувач, Університет банківської справи Національного банку України, головний економіст
Департаменту пруденційного нагляду Генерального департаменту банківського нагляду
Національного банку України, Україна; e-mail: ivanosadchy3@gmail.com

ОСНОВНІ НАПРЯМКИ РЕОРГАНІЗАЦІЇ БАНКІВ В УКРАЇНІ

Анотація. Одним з проявів глобалізації у банківському секторі світової фінансової системи є значне зростання концентрації капіталу, що виражається у таких способах реорганізації як злиття та поглинання фінансово-кредитних установ. Актуальним є розробка і практичне застосування способів та інструментів реорганізації банківських установ, що сприятиме фінансовому оздоровленню та інтеграції вітчизняної банківської системи у світовий фінансовий простір. У статті окреслено основні переваги та недоліки злиття та поглинання в Україні, а також чинники активізації процесів реорганізації і збільшення кількості злиттів та поглинань в банківському секторі. Показано угоди з реорганізації/покупки банків в Україні у 2012-2013 роках. З метою підвищення рівня капіталізації комерційних банків запропоновано стимулювати злиття та об'єднання невеликих банківських установ. Основними принципами державної політики для стабільного та ефективного розвитку банківської системи мають бути принципи ринковості, невтручання, добровільності, конкурентності.

Ключові слова: реструктуризація, об'єднання, банківський сектор, реорганізація банку.

Формул: 0; рис.: 0, табл.: 2, бібл.: 8

Осадчий И. А.

соискатель, Университет банковского дела Национального банка Украины, главный экономист Департамента пруденционного надзора Генерального департамента банковского надзора Национального банка Украины, Украина; e-mail: ivanosadchy3@gmail.com

ОСНОВНЫЕ НАПРАВЛЕНИЯ РЕОРГАНИЗАЦИИ БАНКОВ В УКРАИНЕ

Аннотация. Одним из проявлений глобализации в банковском секторе мировой финансовой системы является значительный рост концентрации капитала, которое выражается в таких способах реорганизации как слияние и поглощение финансово-кредитных учреждений. Актуальным является разработка и практическое применение способов и инструментов реорганизации банковских учреждений, что будет способствовать финансовому оздоровлению и интеграции отечественной банковской системы в мировое финансовое пространство. В статье обозначены основные преимущества и недостатки слияния и поглощения в Украине, а также факторы активизации процессов реорганизации и увеличения количества слияний и поглощений в банковском секторе. Показано соглашения по реорганизации / покупке банков в Украине в 2012-2013 годах. С целью повышения уровня капитализации коммерческих банков предложено стимулировать слияния и объединения небольших банковских учреждений. Основными принципами государственной политики для стабильного и эффективного развития банковской системы должны быть принципы рыночности, невмешательства, добровольности, конкурентности.

Ключевые слова: реструктуризация, объединения, банковский сектор, реорганизация банка.

Формул: 0; рис.: 0, табл.: 2, библи.: 8

Introduction. In recent decades, the banking sector of the global economy has been undergoing significant changes, characterized by the globalization of financial markets and the consolidation of the financial sector, which is reflected in the reduction in the number of financial institutions and the expanding sphere of business of banks, resulting in the internationalization and diversification of their product line, including the expansion of the non-banking products and services that they offer.

One of the manifestations of the globalization of the financial system in the banking sector is the significant increase in the concentration of capital, expressed in such ways as reorganizations, mergers and acquisitions of financial institutions.

At the current stage of development of the banking system of Ukraine, mergers have proved an important factor for improving the capitalization and financial condition of many commercial banks. This applies particularly to small- and medium-sized banks, for which the only way to ensure the effective organization of business is to increase the concentration of their capital, primarily through mergers and acquisitions of other banks. Today, commercial banks are faced with the problem of reductions in the profitability of banking operations and increased competition. The continual fall in output in all spheres of the national economy adversely affects the possibility of increasing bank capital [1].

Research into the issue of reorganization has been undertaken by the following leading national scientists S. Vasil'chenko, I. Vyadrova, A. Lupus, V. Hrushko, I. D'yakonova, L. Konopatska, O. Kostyuk, V. Krotiyuk, A. Lyubun, V. Mishchenko A. Moroz, L. Prymostka, K. Raevskii, V. Rybin, I. Salo, T. Smovzhenko, A. Fitel, and others.

At the same time, a relevant and important current issue is the development and practical application of methods and instruments for the reorganization of banking institutions that facilitate the financial rehabilitation and integration of the banking system in the international financial sector. This further proves the relevance of research in this area.

The aim of the research is to determine the main trends and characteristics of identified factors affecting the process of mergers and acquisitions of banks, and to outline the directions taken in the reorganization of banks today.

According to foreign experience, the most common forms of the reorganization and restructuring of banks are mergers and acquisitions of banks, which are natural phenomena of the global banking industry, and which first came to the fore at the beginning of the 20th century. The supervisory authorities of most foreign countries have in most cases found that the appropriate rehabilitation of banks in financial trouble can be achieved by merging them with financially stable banks.

A. Gerasimovich believes that global banking practice, in the light of numerous banking and financial crises, has contributed greatly to the development of theoretical and practical approaches to the reorganization of banks. At the same time, the author concludes that borrowing foreign approaches to ensure the financial stability of the banking system cannot be effective if it does not take into account internal domestic factors [2].

The economic literature gives weight to the view that the basic methodological principles for the reorganization and restructuring of commercial banks should be as follows: the priority of the interests of society and the state over the interests of individual banks, the use reorganization as a method of rehabilitation of troubled banks, and improving the stability and efficiency of banks to ensure the stable operation of the payment system and the stability of the national currency [3].

In our view, the main goal should be to increase the capitalization of bank capital in the system in order to increase its capacity. The main way to achieve this is through the merger and acquisition of banks. With increasing requirements on the minimum authorized capital of the bank (in Ukraine this minimum size is currently set at UAH 120 mln) there is usually a risk of there being a fall in the number of banks, due to there being an insufficient amount of such capital, and so banks try to maintain their resource base by merging with other banks.

Thus, we can conclude that there persists a problem in increasing the capital in the banking system.

The reorganization of the bank can take the form of a merger, consolidation, separation, a division of the bank, a transformation of its legal form, the result of which is the transmission of its property, assets, rights and obligations to the assignee.

Reorganizations bring a large number of benefits to all parties of the agreement: the buyer bank, the bank that is the potential object of acquisition, or banks that are equal participants in a merger. However, a merger or acquisition of a bank may also bring a variety of risks that could adversely affect this process and resultantly negate its objective and defined strategy (see Tab. 1).

Reorganizations of banks are performed according to the rules of the reorganization of a legal entity, but with the additional features laid down in the Laws of Ukraine "On Banks and Banking" and "On Joint Stock Companies" (as banks have to be created in the form of a public joint stock company or a cooperative bank).

In accordance with Article 26 of the Law "On Banks and Banking" [4] banks may be reorganized if so decided by the banks' owners, and such a reorganization may be carried out via a merger, takeover, splitting, separation, or transformation. All of these methods of reorganization, apart from transformations, are carried out in accordance with the laws of business partnerships, conditional on prior approval being obtained from the National Bank of Ukraine for the reorganization of the bank and the plan of reorganization being approved by the regulator.

Thus, a reorganization may be started only after approval from the National Bank of Ukraine is obtained for the reorganization plan, which, besides other necessary measures,

should include the filing of the documents required for the approval the statute of the new bank, or the approval of amendments to the statutes of an existing bank. The procedure for granting permission for a reorganization according to a decision by the owners of the bank is stipulated in National Bank of Ukraine regulation № 189¹[5].

Table 1

Advantages and disadvantages of mergers and acquisitions of banks

Advantages	<ol style="list-style-type: none"> 1) Saving financial resources by reducing transaction costs 2) Strengthening the bank's competitive position on the market 3) Increasing the level of authorized and regulatory capital 4) Improving the quality of banking products and services 5) Reduction of banking risk and diversification 6) Diversification of banking business in the context of the flow of financial resources 7) A difference in the market value of the company and the cost of replacement 8) Bank acquisition for further sale in order to obtain profit (asset-stripping) 9) Increasing activity scales
Disadvantages	<ol style="list-style-type: none"> 1) Managing large bank compared with a small bank much more difficult 2) Lack of coordination strategies and objectives of banks 3) The high cost of mergers and acquisitions 4) Mergers and acquisitions are risky 5) Significant additional costs of unification of technology and software 6) The possibility of negative consequences due to a change of management

Source: own elaboration.

The scope of the transition of the rights and obligations between the reorganized banks depends on the form of reorganization chosen. In accordance with Article 81 of the Law "On Joint Stock Companies" [6], the reorganization of the bank (as a Joint Stock Company) is based on an agreement on a merger or takeover, and a plan on division, separation or transformation, the terms of which are drawn up by the supervisory boards of each company. Also, during the reorganization by merger or joining, banks have to draw up a transfer act, and in the case of reorganization by division or separation, they have to draw up a distribution balance.

Transfer acts and distribution balances are drawn up after an inventory is made of the bank assets being reorganized, eliminating the differences in the expiration dates for the filing of claims by creditors. In addition, the accuracy of transmission and distribution balance acts has to be confirmed by an auditor.

As of 01.01.2014 a total of 180 banks in Ukraine held a banking license from the National Bank of Ukraine to conduct banking activities, including one bank with the license of a sanation bank (JSC "Rodovid Bank"). Nineteen banks are undergoing liquidation. In addition, in 2013 the National Bank of Ukraine registered seven new banks: PJSC "CB" "HEFEST", PJSC "BANK AVANGARD", PJSC "BANK "YUNISON", PJSC "BANK "PORTAL", JSC "Investment Trust Bank", JSC "Bank Mikhailovsky" and state owned banks: PJSC "Derzhzembank" and JSC "CLEARING CENTER." However, due to the stricter regulatory requirements of the European Union, in 2012-2013, Commerzbank (Germany), Erste Bank (Austria), Swedbank (Sweden), and Astra Bank (Greece) left the Ukrainian banking market. These subsidiary banks were purchased by domestic investors.

Thus, the trend in the Ukrainian banking system is for a consolidation of banks, as well as the creation of banking groups. At the same time, the amount of foreign capital in

¹ The regulations about the features of the reorganization of a bank by a decision of its owners were ratified by a decision of Board of National bank of Ukraine dated 27.06.2008, № 189.

banks is being reduced through their sale to Ukrainian investors, and the result will be a reduction in competition on the domestic banking market.

The main factors enhancing these processes and increasing the number of mergers and acquisitions in the banking sector are [8]:

- lack of capital;
- attractive structures of bank assets to potential investors;
- precarious financial conditions at some banks;
- ability to access potential customers or markets;
- opportunity to acquire capital structures controlled by the bank;
- the possibility of obtaining qualified staff, and modern information storage, processing and utilization technologies;
- geographically advantageous management organizational structures, etc.

Table 2

*Agreements on the reorganization / purchasing of banks
in Ukraine in 2012-2013*

Reorganization of banks				
№	Name of bank that was reorganized	Methods of reorganization	Assignee bank	Beneficial owner's assignee bank
1	PJSC "Creditprombank"	takeover	JSC "Delta Bank"	Lagun M. I.
2	JSC (publ.) "Swedbank"	transformation (changed its name to PJSC "OMEGA BANK")	JSC "Delta Bank"	Lagun M. I.
3	JSC "Erste bank"	takeover	PJSC "Fidobank"	Adarich O. E.
4	PJSC "UNICREDIT BANK"	takeover	PJSC "UKRSOTSBANK"	UniCredit Group
5	PJSC "CIB "Credit Agricole"	takeover	PJSC "CREDIT AGRICOLE BANK"	Credit Agricole Group
Purchase of bank agreements				
№	Name of purchased bank	Shareholder	Purchaser	
1	JSC ASTRA BANK	Alpha Bank, Greece	Lagun M. I.	
2	JSC "BM BANK"	VTB, Russia	Smart-holding (Novinskyi V. V.)	
3	PJSC "BANK FORUM"	COMMERZBANK AG, Germany	Smart-holding (Novinskyi V. V.)	
4	JSC "BANK RENAISSANCE CAPITAL"	ONEXIM Group, Russia	FIG "SCM" (Akhmetov R. L.)	
5	PJSC "CB "ACTIVE-BANK"	"ACTIVE FINANCE GROUP" Ltd (Beneficial owner's: Kliuev A.P., Kliuev S.P.)	Volinets D.M.	
6	PJSC "PRAVEX-BANK"	Intesa Sanpaolo S.p.A, Italy	Group DF (Firtash D. V.)	
7	PJSC "Bank of Cyprus"	Bank of Cyprus Public Company LTD, Cyprus	Alfa-Group, Russia	

Source: [7] and according to the official websites of banks and media.

In Ukraine, the increase of the acquisition and merger / takeover banks is associated with: increasing scale and competitive advantages and enhanced controllability of the subsidiaries of foreign banks (PJSC "UniCredit Bank", PJSC "CIB" Credit Agricole), attractive prices for a potential asset investor (some foreign banks have left the banking

market of Ukraine "at any cost", such as: JSC "Erste Bank" JSC (publ.) "Swedbank", and PJSC "Astra Bank").

Results of the study. Possible further scenarios in the Ukrainian banking sector are increasing numbers of mergers and acquisitions of banks, and the creation of banking groups.

In order to increase capitalization, it is suggested that commercial banks be encouraged to acquire and merge with smaller banks. This will increase the level of capital, save from bankruptcy socially important banks, and increase operating efficiency through cost reduction.

A stable and efficient banking system is largely dependent on state policy in banking, the basic principles which should be the principles of the market, laissez-faire, freedom, and free competition.

Thus, the successful development of the banking system of Ukraine greatly depends on increasing the level of capitalization of the banking sector. The use of appropriate modern banking methods and forms of reorganization will consolidate the positive trends in the banking sector, strengthen depositors' and investors' confidence in the banking system, and increase the sector's resilience in the face of crises.

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Стаття надійшла до редакції 05.03.2014 © Осадчий І. А.

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Received 05.03.2014 © Osadchiy I. A.