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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
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

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ОСОБНІ 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.

Формуль: 0; рис.: 0, табл.: 2, бібл.: 8
ОСНОВНІ НАПРАВЛЕНИЯ РЕОРГАНИЗАЦІЇ БАНКОВ В УКРАЇНІ

Аннотація. Одним із проявів глобалізації в банківському секторі міжнародної фінансової системи є значний зрост концентрації капіталу, присутній в таких способах реорганизації, як об'єднання та поглощення фінансово-кредитних установ. Актуальним є розроблення та практичне застосування способів та інструментів реорганізації банківських установ, що зумовлює необхідність здійснення фінансового оздоровлення та інтеграції окремих банківських систем у міжнародне фінансове простір. В статті зазначено основні переваги та недоліки об'єднань та поглощень в Україні, а також фактори активізації процесів реорганізації та збільшення кількості об'єднань та поглощень в банківському секторі. Показано згідно з реорганізації / покупців банків в Україні в 2012-2013 роках. З метою підвищення рівня капіталізації комерційних банків налагоджено стимулювати об'єднання та об'єднання небагатьох банківських установ. Основними принципами державної політики для стабільного та ефективного розвитку банківської системи є принципи ринковості, невмішаності, добровольності, конкуруючості.

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

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

Table 1

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Saving financial resources by reducing transaction costs</td>
<td>1) Managing large bank compared with a small bank much more difficult</td>
</tr>
<tr>
<td>2) Strengthening the bank’s competitive position on the market</td>
<td>2) Lack of coordination strategies and objectives of banks</td>
</tr>
<tr>
<td>3) Increasing the level of authorized and regulatory capital</td>
<td>3) The high cost of mergers and acquisitions</td>
</tr>
<tr>
<td>4) Improving the quality of banking products and services</td>
<td>4) Mergers and acquisitions are risky</td>
</tr>
<tr>
<td>5) Reduction of banking risk and diversification</td>
<td>5) Significant additional costs of unification of technology and software</td>
</tr>
<tr>
<td>6) Diversification of banking business in the context of the flow of financial resources</td>
<td>6) The possibility of negative consequences due to a change of management</td>
</tr>
</tbody>
</table>

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

Reorganization of banks

<table>
<thead>
<tr>
<th>№</th>
<th>Name of bank that was reorganized</th>
<th>Methods of reorganization</th>
<th>Assignee bank</th>
<th>Beneficial owner's assignee bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PJSC &quot;Creditprombank&quot;</td>
<td>takeover</td>
<td>JSC &quot;Delta Bank&quot;</td>
<td>Lagun M. I.</td>
</tr>
<tr>
<td>2</td>
<td>JSC (publ.) &quot;Swedbank&quot;</td>
<td>transformation (changed its name to PJSC &quot;OMEGA BANK&quot;)</td>
<td>JSC &quot;Delta Bank&quot;</td>
<td>Lagun M. I.</td>
</tr>
<tr>
<td>3</td>
<td>JSC “Erste bank”</td>
<td>takeover</td>
<td>PJSC “Fidobank”</td>
<td>Adarich O. E.</td>
</tr>
<tr>
<td>4</td>
<td>PJSC “UNICREDIT BANK”</td>
<td>takeover</td>
<td>PJSC “UKRSOTSBANK”</td>
<td>UniCredit Group</td>
</tr>
<tr>
<td>5</td>
<td>PJSC “CIB “Credit Agricole”</td>
<td>takeover</td>
<td>PJSC “CREDIT AGRICOLE BANK”</td>
<td>Credit Agricole Group</td>
</tr>
</tbody>
</table>

Purchase of bank agreements

<table>
<thead>
<tr>
<th>№</th>
<th>Name of purchased bank</th>
<th>Shareholder</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>JSC ASTRA BANK</td>
<td>Alpha Bank, Greece</td>
<td>Lagun M. I.</td>
</tr>
<tr>
<td>2</td>
<td>JSC “BM BANK”</td>
<td>VTB, Russia</td>
<td>Smart-holding (Novinskyi V. V.)</td>
</tr>
<tr>
<td>3</td>
<td>PJSC “BANK FORUM”</td>
<td>COMMERZBANK AG, Germany</td>
<td>Smart-holding (Novinskyi V. V.)</td>
</tr>
<tr>
<td>4</td>
<td>JSC &quot;BANK RENAISSANCE CAPITAL&quot;</td>
<td>ONEXIM Group, Russia</td>
<td>FIG &quot;SCM&quot; (Akhmetov R. L.)</td>
</tr>
<tr>
<td>5</td>
<td>PJSC &quot;CB &quot;ACTIVE-BANK&quot;</td>
<td>“ACTIVE FINANCE GROUP” Ltd (Beneficial owner's: Kliuev A.P., Kliuev S.P.)</td>
<td>Volinet D.M.</td>
</tr>
<tr>
<td>6</td>
<td>PJSC “PRAVEX-BANK”</td>
<td>Intesa Sanpaoreso S.p.A, Italy</td>
<td>Group DF (Firtash D. V.)</td>
</tr>
<tr>
<td>7</td>
<td>PJSC “Bank of Cyprus”</td>
<td>Bank of Cyprus Public Company LTD, Cyprus</td>
<td>Alfa-Group, Russia</td>
</tr>
</tbody>
</table>

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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