

TEMPLATE

CROSS-BORDER MERGERS AND ACQUISITIONS DEVELOPMENT IN THE BANKING SECTOR OF UKRAINE

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The article deals with the flow of foreign capital in the banking sector of Ukraine through mergers and acquisitions. The emphasis is on the importance of international mergers and acquisitions in increasing of Ukrainian banks capitalization. The author analyzed the peculiarities of international mergers and acquisitions in Ukrainian banking sector and revealed market features attracting foreign banks and factors hindering cross-border mergers and acquisitions development in the country.

Increasing number of agreements of mergers and acquisitions promotes the globalization of markets, which leads to the consolidation of companies, development of communication and transport technologies, which enable the structure regardless of distance. Also the economic feasibility is important - the constant growth of prices for shares in a relatively stable and low interest rates make financing mergers or acquisitions more affordable and predictable result.

Consequently, the share of foreign capital in Ukraine's banking sector is growing, more and more banks are becoming objects of transactions of purchase of foreign financial institutions and come under the control of foreign investors. Table 1 shows the dynamics of the share of foreign capital in the banking sector of Ukraine at the beginning of each year from 2005 to 2011.

Table 1

Figures	Share of foreign capital in the banking sector of Ukraine						
	Period						
	2005	2006	2007	2008	2009	2010	2011
Number of operating banks	160	165	170	175	184	182	176
Number of banks with foreign capital	19	23	35	47	53	51	55
Including 100% share of foreign capital	7	9	13	17	17	18	20
Share of foreign capital, %	9,6	19,5	27,6	40,5	36,7	35,8	40,6

Source: calculated by the author on the base of NBU data [3].

In early 2011, 55 banks had a share of foreign capital in the capital, including 20 - with 100% foreign capital. In 2005, the number of such banks was only 19, almost three times less. As of 01/01/2011 there were only 176 operating banks, of which 40.6% of foreign capital, a 31% increase over the same period in 2005. Consequently, the share of foreign capital in Ukraine's banking sector is growing.

Most of foreign investors, buying Ukrainian banks, come from the European Union (Chart 1). The most active investors were foreign capital banks in the Russian Federation. Between 2004 and 2010 Russian financial institutions purchased 10 Ukrainian banks, representing about a quarter of all agreements signed during this period. In general, the Russian financial institutions controlled 11 banks in Ukraine, three of which belong to dozens of leaders of the Ukrainian banking market.

The second most active investor in the Ukrainian banking market is representative of Austria (their share is 12% of the total number of mergers and acquisitions). Overall for the period the foreign capital in the banking sector of Ukraine was received from 16 countries.

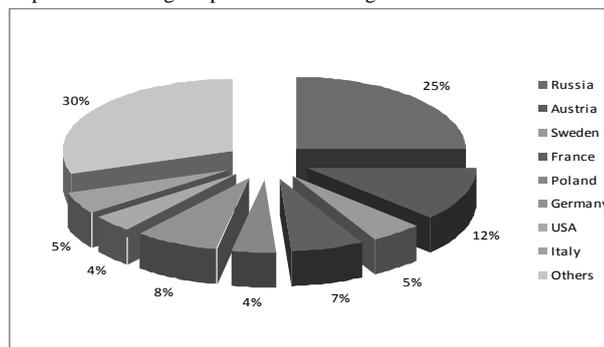


Chart1. M&A of Ukrainian banks for the period from 2004 to 2011 by country-buyers.

Source: compiled by the author according to the study of Mergermarket Group (Global M&A Survey) [2].

Among the factors that influence the activation of mergers and acquisitions of banks in Ukraine are steep growth dynamics of the market and high interest rates compared to rates in the "parent" markets, which allow to get higher profits.

The main obstacles during the execution of mergers and acquisitions in Ukraine were and are such ones as isolation and lack of transparency of companies, the complexity of building relationships with an unstable government, as well as differences in the assessment of business between the buyer and seller [1].

However, there is much more serious problem - an acute shortage of liquidity in the global market as one of the main aspects that characterize the current global financial situation. A number of factors complicate the implementation of mergers and acquisitions in the banking sector of Ukraine:

- Lack of capitalization;
- Lack of effective mechanisms for banks and risk management, planning and strategy development;
- Unreasonably high level of bank charges;
- Imperfect structure of the resource base, with a predominance of expensive borrowed funds;
- Low return on assets;
- Low level of bank management and corporate governance;
- Lack of effectiveness of banking supervision and transparency of banking institutions [4].

However, cost and number of transactions are growing, which in turn leads to an increase in capitalization and profitability of capital of bought banks and, consequently, of the entire banking system. Thus, the flow of foreign capital in Ukraine's banking sector has a positive impact on the entire industry.

1. *Characteristics of processes M&A: The cost, tools, source of funding, opening, reporting.* [online] Analytical portal Mergers.ru (M&A in Russia). Available at: <<http://www.mergers.ru/library/theory/>>
2. *Global M&A overview.* [online] The Mergermarket Group. Global M&A Survey. Available at: <<http://mergermarket.com/remark/article/1300/>>
3. *Banking Supervision. Statistics.* [online] National Bank of Ukraine. Available at: <http://bank.gov.ua/control/uk/publish/article?Art_id=65162&cat_id=36674>
4. *M&A: news, analytics.* [online] Project M&A online. Available at: <<http://www.maonline.ru/about.html>>

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