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MOTIVES OF REALIZATION OF AGREEMENTS OF MERGERS AND ACQUISITIONS IN THE BANKING SECTOR OF UKRAINE

Abstract. The aim of the study is to generalize the tendencies of development of the market of mergers and acquisitions in the banking sector of Ukraine, to determine the efficiency of these transactions by calculating the price multipliers and explore the main reasons for their implementation. The importance of studying the motives of agreements is caused by significant increase in the volume of mergers and acquisitions in the banking sector in recent years and the specific conditions of implementation of these agreements. In the article it was calculated the average values of main multipliers of assessing the value of Ukrainian banks in agreements of mergers and acquisitions by foreign investors during 2004–2017 and it was set their discrepancy to recommended values. It was systematized the main reasons of implementation these agreements and identified the barriers of the development of banking market of M&A in Ukraine. Research the motives of M&A in the banking sector allows to conclude about the clear positive effect of these transactions. However, analysis of price multipliers of M&A in the banking sector of Ukraine during 2004-2017 revealed the poor quality of realized transactions. The main motives of these agreements offered are the following: safety, investment, information and tax reasons. Ukrainian banks that have been eliminated in recent years could be the main contenders for consolidation with the banks that work more efficiently.

Keywords: bank, mergers and acquisitions, motives of realization of agreements, price multipliers.

JEL Classification: G21, G34

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МОТИВИ ЗДІЙСНЕННЯ УГОД ЗЛИТТЯ ТА ПОГЛИНАНЬ У БАНКІВСЬКОМУ СЕКТОРІ УКРАЇНИ

Анотація. Стаття покликана узагальнити тенденції розвитку ринку злиттів і поглинань у банківському секторі України, визначити ефективність здійснення цих угод шляхом розрахунку цінових мультиплікаторів та дослідити основні мотиви їх здійснення. У статті розраховано середні значення основних мультиплікаторів оцінки вартості банків України в угодах злиття та поглинання іноземними інвесторами протягом 2004–2017 рр. та встановлено їх невідповідність рекомендованим значенням. Серед основних мотивів здійснення цих угод пропонується виділити наступні: захисні, інвестиційні, інформаційні та податкові мотиви. Дослідження мотивів проведення процесів злиття/поглинання у банківському секторі дозволило зробити висновок про явний позитивний вплив цих операцій на банківську систему країни.

Ключові слова: банк, злиття та поглинання, мотиви здійснення угод, цінові мультиплікатори.

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МОТИВЫ СОВЕРШЕНИЯ СДЕЛОК СЛИЯНИЙ И ПОГЛОЩЕНИЙ В БАНКОВСКОМ СЕКТОРЕ УКРАИНЫ

Аннотация. Статья призвана обобщить тенденции развития рынка слияний и поглощений в банковском секторе Украины, определить эффективность осуществления этих сделок путем расчета ценовых мультипликаторов и исследовать основные мотивы их осуществления. В статье рассчитаны средние значения основных мультипликаторов оценки стоимости банков Украины в сделках слияния и поглощения иностранными инвесторами в течение 2004-2017 гг. и установлено их несоответствие рекомендуемым значениям. Среди основных мотивов совершения этих сделок предлагается выделить следующие: защитные, инвестиционные, информационные и налоговые мотивы. Исследование мотивов проведения процессов слияний/поглощений в банковском секторе позволило сделать вывод о явном положительном влиянии этих операций на банковскую систему страны.

Ключевые слова: банк, слияния и поглощения, мотивы совершения сделок, ценовые мультипликаторы.

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Introduction. The economic crisis that had developed in Ukraine, is gaining more depth. The results of 2016 showed the continued downward dynamics of the majority of macroeconomic indicators. As Ukraine's economy continues to operate under conditions of military confrontation in the east of the country, the reduction of state funding and decrease in consumer and investment demand, the main indicators of activity of Ukrainian banks continue to deteriorate. As of 01.01.2017 the result of Ukrainian banks for the first time in nearly three years (since February 2014) was positive and amounted 338 million UAH (as of 01.01.2015 the losses of Ukrainian banks amounted 8504 million UAH, and as of 01.01.2016 it was 890 million UAH). As of 01.01.2017 the

indicators of return on assets and equity had a very low value and were respectively 0.33% and 3.33% [1].

These trends, along with the aggravation of inter-bank competition, force banks' management to resort to manual consolidation of their businesses or to avoid banks' failures by making the decision of merger or acquisition.

Literature review and the problem statement. Actually the banks' mergers (a friendly takeover) are not widespread in Ukraine; generally domestic banks are not considered as a separate self-contained business, and bought only for cash management services of financial-industrial groups. Therefore, the motives of agreement of mergers and acquisitions in Ukrainian banking sector require more detailed investigation.

The studies of such foreign scientists, as T. Copeland, T. Koller, J. Murin [2], A. Damodoran [3], J. Sinkey [4], A. G. Gryaznova, M. A. Fedotova [5], are devoted to the investigation of the world experience of M&A in the banking sector. Among domestic researchers of this issue it should be noted A. O. Epifanov, S. V. Lieonov, Y. Khaber [6], H. A. Yehorova [7], K. S. Shaposhnykov [8] and others. However, in Ukraine the bank's market of M&A is quite dynamic; the motives of transactions are different from the global ones, so it requires constant attention of scientists.

Scientists have not investigated the issues of identification and systematization the motives of mergers and acquisitions yet.

The aim of the article is to study the motives of mergers and acquisitions in the banking sector of Ukraine.

Research results. It is proposed to start the analysis of agreements of mergers and acquisitions of Ukrainian banks by foreign investors in 2004, because before this year in Ukrainian banking sector there were not significant deals of mergers and acquisitions, the price of which exceeded 1 million dollars of the USA.

The data about the volume of mergers and acquisitions of Ukrainian banks by foreign investors during 2004-2017 are shown in the table 1 [9].

Table 1

The volume of mergers and acquisitions of Ukrainian banks by foreign investors during 2004–2017

Years	The amount of banks acquired by foreign investors	The amount of banks in which acquired more than 50% of shares	Total value of transactions for the year, million dollars of the USA
2004	3	2	95,79
2005	4	2	1381,75
2006	20	13	2961,5
2007	16	16	5043,38
2008	5	3	1240,74
2009	4	2	1208,46
2010	4	3	740,00
2011	5	5	752
2012	1	1	56
2013	n/d	n/d	n/d
2014	3	3	51
2015	4	4	3,49
2016	13	13	142,12
2017 (January-April)	1	1	н/д
Total	83	68	13676,23

Source: calculated by the authors on the base of [9]

As shown in the table 1, in 2004 the market mergers and acquisitions of Ukrainian banks by foreign investors intensified. This year, the objects of deals were the JSC "Credit Bank Ukraine", the JSC "Bank "Energobank", the JSC "Bank "Agio". The activity of foreign banks to purchase Ukrainian banks increased to the global financial crisis in 2008. At the end of 2008 the volume of M&A transactions was more than three times lower than in the same period in 2007. The prerequisites of reduced activity in M&A market in this period were: lack of capital of investors, expectations of lower asset prices, reducing the total number of transactions with controlling stakes of business, cancellation or delay of certain operations, the problems of fair business valuation.

During 2008-2009 Ukrainian undervalued assets in the global crisis has depreciated further and become more attractive and accessible, foreign investors had more opportunities and funds for transactions on purchase of Ukrainian banks, that's why they were the initiators of the consolidation of the banking capital of Ukraine. During the following years the situation reversed, some international financial group announced withdrawal from the Ukrainian market. In 2011 the investment group "Kardan N.V." announced the sale of 84% shares of the PJSC "VAB Bank" and the financial group "Bank of Georgia" has reserved only 19.4% of the shares of the PJSC "BG Bank". In 2012 the PJSC "Credit Europe Bank" closed all its offices in Ukraine except one, and no longer served the citizens. In 2012 such banks as the PJSC "SEB Corporate Bank", the PJSC CB "Forum" lost their foreign investors [9].

During the 2012–2015 due to uncertainty about the prospects of economic development, complexity and design complexity of registration of transactions of mergers and acquisitions the interest of foreign companies to Ukrainian market declined [9]. The unfavorable political situation in Ukraine since early 2014 has led to decrease of the volume of M&A transactions. Many projects, where purchase negotiations were in the final stage, were postponed indefinitely. Thus, the investment company "Investment Capital Ukraine" closed the acquisition of the bank "Avangard", and "Terra Bank" and the "Pravex bank" changed owners. However, in 2016, despite the fact that foreign investors withdrew from the Ukrainian market 700 million dollars of the USA, in the banking sector the volume of M&A transactions increased sharply compared with the previous five years and amounted 142.12 million dollars of the USA. So, on the 31 of November, 2016 ABH Holdings S.A., which owns 100% of shares of the "Alfa-Bank Ukraine", completed the acquisition of 99.9% of the PJSC "Ukrsotsbank" [9]. The objects of sale to foreign investors were also the PJSC "Neos Bank", th PJSC "UkrSibbank", the PJSC "CB "Investbank", the PJSC "BTA Bank Ukraine", the PJSC "FineksBank", the PJSC "Eurobank", the PJSC "Commercial Industrial Bank", the PJSC "Prominvestbank", the PJSC "First Investment Bank", the PJSC "Ukrainian Bank of Reconstruction and Development". 2017 began with selling 84.7749% of PJSC "Region-bank" to Kazakh investor Arif Babayev.

In the works [2; 3; 4] mergers and acquisitions are seen as an important factor in increasing the bank's value. However, numerous studies [5; 10] show that the cost-effectiveness of mergers and acquisitions is very low: over 70% of transactions do not create synergies and even destroy value; more than 50% of the largest M&A cause decrease of the shareholder's value; around 30% is almost not affected on the value and less than 20% create it; only 40% of transactions recognized as successful by shareholders, others cause the losses of the company's value. To test these statements it was analyzed the effectiveness of purchase of the shares of Ukrainian banks by foreign investors during 2004-2017. For this purpose it was calculated the multiples [5, p. 21; 6, p. 42]:

P/E is the ratio of the bank's price to the net income. If this indicator is in the range of 15-25, the value of purchased shares corresponds to the market capitalization of the institution;

P/S is the ratio of the bank's price to the gross income; the indicator better corresponds to the conditions, when banks, measured or compared, have similar operating costs;

P/B is the ratio of the bank's price to its capital. The value of the multiplier P/B of less than 1 indicates the presence of problems in the bank (market capitalization less than actual balance);

A/P is the ratio of the bank's assets to the price of its sale. The value of this index must be equal to or greater than 1, and if the value of the index is close to 0, the bank's value is revalued.

The calculated mean values of fixed multiples of banks' valuation in the transactions of mergers and acquisitions of Ukrainian banks by foreign investors during the 2004–2017 are shown in the table 2.

Table 2

The mean values of price multiples of banks' valuation in the transactions of mergers and acquisitions of Ukrainian banks by foreign investors during the 2004–2017

Years	Price multipliers							
	P/E		P/S		P/B		A/P	
	The achieved value	The recommended value	The achieved value	The recommended value	The achieved value	The recommended value	The achieved value	The recommended value
2004	-25,77	15–25	12,39	$\geq \infty$	9,17	> 1	1,33	≥ 1
2005	200,53		3,87		3,58		0,33	
2006	154,61		16,12		4,69		0,74	
2007	117,12		11,30		3,20		0,48	
2008	200,54		23,52		4,49		1,11	
2009	172,20		3,87		2,63		0,25	
2010	-4,53		0,89		1,34		0,13	
2011	2220,14		1,08		1,29		0,10	
2012	-0,10		0,50		0,32		19,84	
2013	n/d		n/d		n/d		n/d	
2014	1,51		0,03		0,04		262,93	
2015	-0,34		12,92		-14,57		40,32	
2016	1,00		4,82		0,66		12,01	
2017	n/d		n/d		n/d		n/d	
Mean value	306,72		7,61		1,40		28,30	

Source: calculated by the authors on the base of [9]

As shown in the table 2, in 2004 the domestic market of M&A was characterized by a negative value of the multiplier P/E, since the object of the transaction were banks, which at the time of sale were unprofitable: the JSC "Credit Bank Ukraine", the JSC "Bank "Energobank", the JSC "Bank "Agio".

The average values of most price multipliers in 2009-2011 were lower compared with those in 2005–2008 (except the multiplier P/E in 2011) due to reduced demand for Ukrainian banks during the crisis.

The average value of the multiplier P/E in the M&A transactions during 2004-2011 was 306.72, which is significantly higher than the recommended value (15-25). This indicates that the price of sale of Ukrainian banks excessively exceeded their profits.

The deal with the JSC "International Mortgage Bank" in 2006 had the best value of the indicator P/S (P/S = 89.24). The JSC "Bank "Mriya" (P/S=1.30 in 2006 and 1.65 in 2007), the JSC "HVB Bank Ukraine" in 2007 (P/S=1, 04), the JSC "VAB Bank" in 2009 (P/S=0.47) were sold by the market value.

The deals, purchase objects in which were the PJSC "Bank Forum" (P/S=1.88), the PJSC "Kreditprombank" (P/S=0.32), the PJSC "UkrSibbank" (P/S=0.13), the PJSC "Home Credit Bank" (P/S=2.57), the PJSC "VAB Bank" (P/S=0.66), the PJSC "CB "Nadra" (P/S=1.64), the PJSC CB "PrivatBank" (P/S=0.95), were characterized with the low value of the multiplier P/S.

This is evidence that beginning from 2010 the majority of foreign investors focused on buying agencies not under attractive financial performance, but at a low price, that confirming the trend of buying Ukrainian banks to obtain license, to operate in the domestic market and to avoid so long process of receiving a banking license for non-residents.

According to the multiplier P/B the most beneficial for domestic banks were the sale agreements with banks such as the PJSC "Bank "Energobank" in 2004 (P/B=24.20), PJSC "International Mortgage Bank" in 2006 (P/B=13.10). However, the sale of 99.99% shares of the PJSC "UkrSibbank" in 2010 had

the lowest value of this indicator ($P/B=0.23$). The agreement for the sale of the PJSC "UkrSibbank" also had enough low value of the multiples P/E and P/S.

As for the multiplier A/P, its average value during 2004-2017 was 28.3, i.e. in the transactions of M&A of Ukrainian banks by foreign investors the assets exceeded the cost of buying and selling of 28.3 times, although in 2014 this multiplier was the highest for the period and amounted 262.93. The acquisition of the PJSC "PrivatBank of Georgia" by the "Bank of Georgia" was characterized by this value of the multiplier A/P, i.e. the transaction took place under very low price.

The analysis of the mean values of price multiples of banks' valuation in the transactions of mergers and acquisitions of Ukrainian banks by foreign investors during 2004–2017 shown that the recommended values of the financial indicators did not take into account the specifics of the Ukrainian market. The high variation of price multiples and their discrepancy to the average values observed in the world, make it impossible to use them to assess the effectiveness of buying shares of Ukrainian banks by foreign investors.

Therefore, among the motives of M&A transactions in the banking sector of Ukraine, in addition to the motive of receiving a profit, it is offered the following [7; 8]:

1. Safety motives:

- acquisition of complementary assets (after merging banks became more competitive, their assets rise in price, especially when banks have complementary resources);
- strengthening of the financial condition (due to the joint financial performance, optimizing the tax burden, reducing the financial risk and increasing the creditworthiness);
- strengthening the market positions, getting rid of the competition by buying their assets and capture their share of the market (in order to strengthen its monopoly position in the market, depriving it from participation of rival companies);
- improving the quality of management (less efficient banks is usually absorbed, as well as those where the management is worse);
- reducing and/or eliminating an inefficiency (thanks to the more efficient management the economic efficiency of the bank is increased, as well as its shareholders' value);
- desire to diversify large financial flows and reduce the risk of financial loss (diversification allows to invest surplus resources in other businesses, increase the volume of services);
- realization of personal interests of the bank's management.

2. Investment motives:

- placement of free funds (if the banking structure has large financial resources, but limited capacity to accommodate them, it may be of interest as an object of absorption by powerful bank that operates in a national and international scales);
- increasing the investment attractiveness (an efficient use of assets and their liquidity, strengthen the financial condition due to sharing capital and financial investments);
- buying undervalued assets (bank's desire to acquire assets at a price below market value, primarily due to unfavorable conditions in the capital markets and the ability to resell these assets in the future by a better price);
- participation in the lucrative business;
- using management skills;
- investment of surplus cash;
- partnership or attraction a strategic investor in the bank;
- allocation of the part of the business as a separate business unit or a company.

3. Information motives:

- obtaining information about the technologies in the bank that acquired (through mergers and acquisitions the latest scientific ideas and financial resources required for their implementation can be combined. United, the banks receive the benefits due to the cost savings from the development of new technologies and new products);
- obtaining information about bank's clients.

4. Tax motives:

- desire to obtain tax benefits (use of the transfer pricing to minimize tax payments).

– However, there are a number of problems that hamper the motives of investors in mergers and acquisitions of Ukrainian banks:

1) the world economy is in the active stage of reducing the debt burden on capital, which therefore reduces the amount of free investment capital;

2) extremely low investor's demand for risky transactions, and investments to Ukraine are considered as one of the most risky, that's why they have been kept to a minimum;

3) investors who are considering investment opportunities in Ukraine, give priority to companies in sectors that the least vulnerable to the effects of the crisis, avoiding the banking sector.

Conclusions. Research the motives of M&A in the banking sector allows to conclude about the clear positive effect of these transactions. However, analysis of price multipliers of M&A in the banking sector of Ukraine during 2004-2017 revealed the poor quality of realized transactions, since most objects of purchase are problem financial institutions, i.e. such agreements was an exceptional measure and could not be aimed at getting the classical benefits of the M&A transactions. In the world practice, the stimulation of the processes of the M&A, in which troubled banks are included in the financial-resistant and strong banks, are a way of restructuring the banking system in general, and especially in conditions of crisis. In addition, the state interest in making such decisions caused by the minimal expenses from the state budget to rescue insolvent banks and payment of contributions.

Since the beginning of 2017 in Ukraine it have been eliminated three banks (PJSC "Platinum Bank", PJSC "Fortuna-Bank", PJSC "Vector Bank"). However, these banks could be the main contenders for the consolidation with the banks working more effectively, so the directions for further research are to develop effective strategies and determining the conditions for effective conducting the deals of M&A in the banking sector of Ukraine.

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