

# FOREIGN BANKING IN UKRAINE: DEVELOPMENT TRENDS AND OWNERSHIP STRUCTURE REGULATION

Serhiy Reverchuk, Ulyana Vladychyn  
Ivan Franko National University of Lviv, Ukraine

Charlotte Davis  
Concord University, Athens, WV

## ABSTRACT

The purpose of the article is to research the theoretical and practical aspects of foreign participation ownership structure of banks in Ukraine; to analyze the tendencies and challenges of structure regulation of bank ownership; to provide recommendations related to the role of enhancing the transparency of banking business. This research was conducted by way of review of the data on bank ownership and the regulation of the ownership structure of the banking sector in Ukraine.

**Keywords:** International banking, Foreign banking participation, Ownership structure, Equity positioning, Banking consortiums.

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## INTRODUCTION

Due to the recent financial crisis in Ukraine, there existed challenges to the attractiveness of foreign investment into the Ukrainian banking system, as well as challenges to existing foreign banks with branches in the country. These impediments included the fact that banks were unable to access national capital, and the fact that foreign investments became the only way to support the development of the banking sector. In order to stimulate foreign investment, necessary facilities for effective operations in Ukraine were explored in order to function within the downturn in activity in Ukraine. One particular concern was how to improve and stabilize the economic situation throughout the country by way of increasing investment attraction for foreign investment inflows. If this could be achieved the expectation would be improved transparency within the banking profession. This study, by way of analysis of the data related to banking functions, specifically in the area of ownership structure, will help to address this concern. Specific attention is given

to examining who owns, manages and controls the individual banks. Thus, the findings of this study will provide recommendations and implications for improving existing banking operations, as well as ways in which to further develop the banking sector in general.

## RESEARCH BACKGROUND

Banking operations and the impact of foreign capital in Ukraine have been previously examined from a number of perspectives in the research literature. Research by A. Abalkina, V. Harkavenko, O. Dziubliuk, Zh. Dovhan, O. Druhov, R. Kornyliuk, A. Moroz, T. Smovzhenko, O. Chub, and F. Shpyh have examined the involvement of foreign investors in the Ukrainian banking system. The extant literature has mainly focused on the impact of foreign capital on the development of banking systems, by way of outlining advantages and disadvantages of the involvement of foreign investors abroad, and determining optimal forms of foreign involvement. At the same time, the research

appears to leave the door open for additional attention to be given to the role of state regulation of foreign banking. Therefore, this study will examine the problems and opportunities of state regulation of the foreign banking sector. Reflections on the volume of foreign capital by investing countries, and the impact of high-quality coverage of the structure of ownership of banks with foreign capital, are made. In addition, the possibility for greater transparency of information about bank ownership, and the establishment of regulatory procedures in Ukrainian banking is presented.

This study presents the findings of an analysis of the state of development of foreign banking and state regulation of the ownership structure of banks with foreign capital in Ukraine. Assessment of the ownership structure of banks with foreign capital was defined by those investing countries and groups of banks as measured by asset volume. Basic trends in the development of foreign banking in Ukraine, and the problems involved in state regulation are presented. Finally recommendations are formulated to assist in the development of banking operations through the use of foreign

capital in Ukraine.

### THE UKRAINIAN BANKING SECTOR

The present day Ukrainian banking sector began to emerge with the entrance of foreign banking operations following the Independence of Ukraine in 1991. In that year the domestic banking system was first launched, while the first participation of international banks began in 1994. Well-known international banking groups, such as Crédit Lyonnais, Societe Generale, Credit Suisse First Boston, Bank Austria Creditanstalt AG, Raiffeisen International Bank-Holding AG, and Citigroup were part of this initial wave. The second, and most active period of foreign bank involvement in Ukraine was in the years 2006 and 2007 (Fig. 1). During this period, although there was greater foreign involvement, the increase of foreign capital shares in the authorized fund of the Ukrainian banks was slower than the change in amount of foreign banks. The result was that foreign capital shares in the Ukrainian banking sector were 19.5% at the end of 2005, 27.6% at the end of 2006, and 35% in 2007.

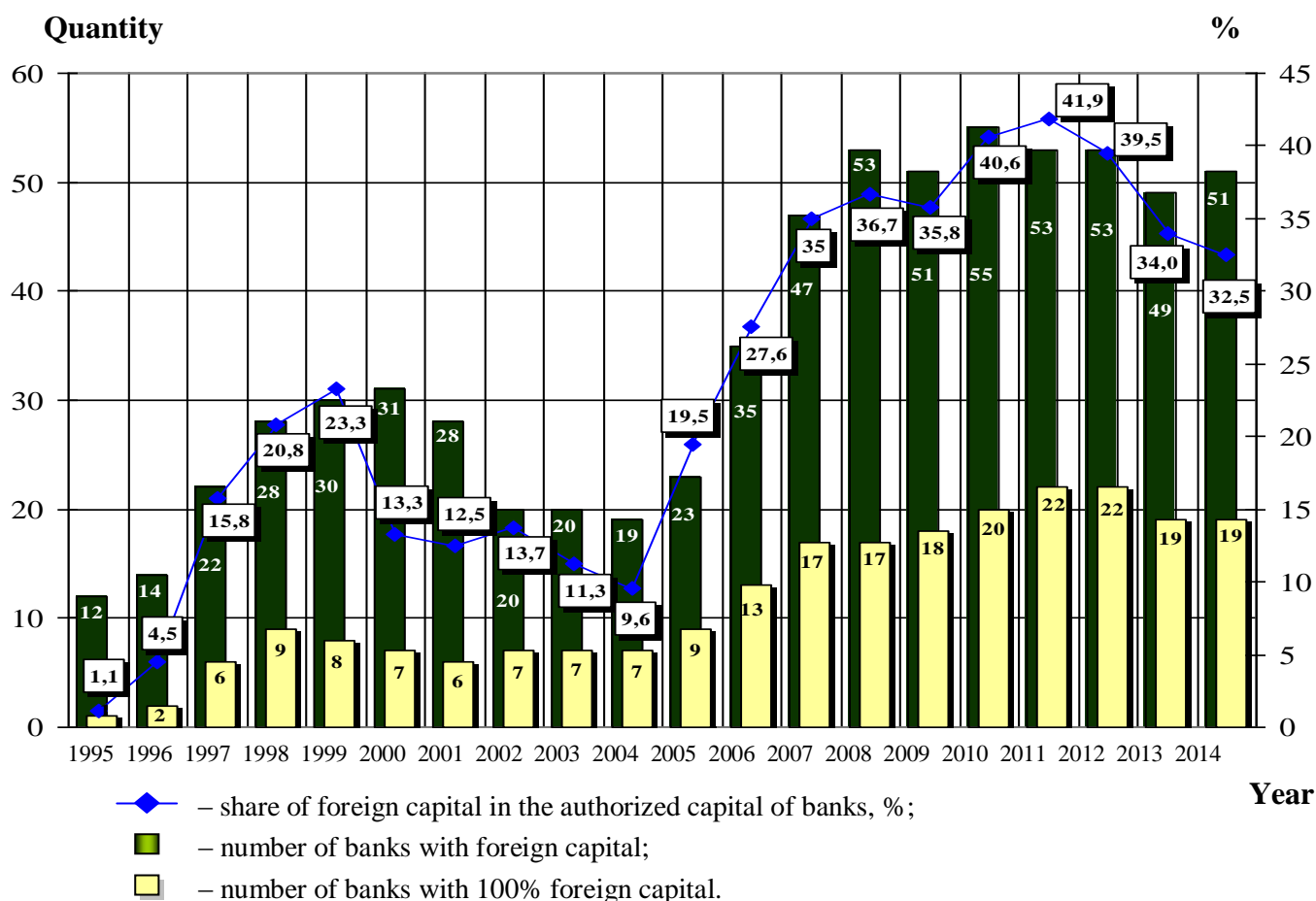


Figure 1. The indexes of foreign banking in Ukraine valid for the end of the period.

This tremendous growth of the investment participation shares in the banking system of Ukraine caused great debate in scholarly study as well as amongst bankers-practitioners themselves. There was an ongoing dispute within Ukraine as to the role of, and influence, that foreign bank participation would cause. There were preferences and acknowledged shortcomings of the Ukrainian banking functioning under the influence of foreign capital (Chub, 2009: p.94-98; Mishchenko, Shapovalov, 2007: p.102; Dmytrenko and Kochuma, 2008: p.106). There were expressed comments by way of positive and negative consequences of foreign participation influencing the Ukrainian banking system (Dovhan, 2011: p.25; Arzhevitin, 2010: p.461, Yudina, 2012: p.68-69).

A challenging aspect of the debate was the necessity of applying limitations to foreign participation in the sector. Some scholars proposed to limit foreign participation shares at the level of 40% (Moroz, 2009: p.89; Savluk, 2005: p.23.), while others supported more rigid demands, with an upper limit of 25% (Shpyh, 2006: p.28). Proposals were made to narrow the functioning of foreign banks by way of legislative limitations. Simultaneously, the bankers themselves stressed the folly in putting in such limitations, and proposed the need to attract additional foreign banking capital. It should be mentioned, that in many foreign countries (Denmark, Germany, China, Finland, Sweden and others) some limitations as to foreign banks investments, operations, and the functioning of foreign capital in the economy, exist (Echaust, 2007.).

Considerable discussions were held as to the necessity of foreign branches admittance. These discussions were contained in the amendment to **the Ukrainian Law entitled, "About Banks and Banking Activity", in 2006. In fact, permission for foreign bank branches operating within Ukraine was one of the demands put forward during WTO negotiations.** The reality was that the big banking groups did not show intent in launching their own branch networks in Ukraine, but rather preferred buying up existing banks already operating in Ukraine. This was particularly true for the biggest banks that had demonstrated stable financial operations and a strong network of offices and other administration assets. The claims for this fact were due to the availability of suitable networks and the avoidance of extensive red tape involved in establishing new banking

institutions. There were also further concerns with restrictions related to the regulatory bodies of foreign countries with respect to opening affiliated branches in foreign markets. The world economic crisis added further barriers to foreign banks operating in Ukraine. In 2010–2012 the result was a partial reduction (the reduction of retail credit in particular) or total exit from the Ukrainian market. The latter group consisted of well-known international banks such as: SEB Group (Sweden), Commerzbank (Germany), Home Credit Group (Czech Republic), TIBF (Netherlands), and Volksbanken International (Austria).

The crisis in the Ukrainian economy as well as the ever-changing political situation during the period of 2013–2015, led to withdrawals by foreign investors, with the result being a gradual decrease in the number of banks, and the share of foreign capital in the authorized capital stock of the Ukrainian banking system. Additional reductions were the result of insolvent banks. The loss of these enterprises, in addition to the shrinkage in the number of banks, also had an overall downward effect on the quality of the sector. For instance, at the start of 2014, out of the 180 banks operating in Ukraine, 49 were supported by foreign capital, and of those, 19 were wholly funded by foreign capital. By the beginning of July 2015, the respective numbers were 38 banks, with almost 50% of those with 100% foreign capital.

These changes in both the number of and volume of foreign control in the Ukrainian banking system were, on the one hand, related to a general market re-distribution, but more importantly due to the tense military and political situation in the country. The result is that the prospect for development of the Ukrainian banking market, by way of large-scale inflows of foreign capital in the near future, is in great doubt. Simultaneously, the mass exit of these foreign banks can result in perpetuating an image of a poor investment climate and an overall lowering of bank competitiveness. Furthermore, a fostering of negative banking confidence as well as the question of the prospect of future banking developments has occurred. Hence, there is a continued search by banking stakeholders, who are closely examining and tracing changes in bank ownership structure and considering the trustworthiness and reputation of any new owners.

One way in which honesty and trust in the banking sector is developed and communicated, is by the degree of transparency in terms of business operations. Increased transparency also characterized by honesty, business reputation, and an openness to partnering opportunities. Transparency is a vital factor in shaping credibility with banks for investors, creditors, and counteragents. In order to address issues of transparency, there is a need to define and understand the structure of banking ownership.

The regulation of the structure of banking ownership in Ukraine initially requires one to conduct an analysis of legislative documents related to this issue. Hence, despite the fact that the Basel Committee on Banking Supervision worked out recommendations for bank transparency in 1998, in particular concerning functioning stability of a bank, Ukraine accepted the statement *“About the Order of Presenting Data about Ownership Structure”*, approved by Regulation of National Bank Managing Committee No. 306 from 08.09.2011. At the same time, the National Bank of Ukraine (NBU) since 2007, had been presenting quarterly information on its official site about the ownership and ownership participation in banks operating in Ukraine. The National Bank of Ukraine has been disclosing information about both direct and indirect owners of banks. This action highlighted the necessity of presenting information about the owners of capital at the official site of NBU, and was introduced into the Ukrainian Law (*“About the National Bank of Ukraine”* No. 3024-VI from 12.02.2011). Experienced bankers ascertained that the depiction of their ownership structure would not influence the functioning of large banks with high percentages of foreign capital, because, as a rule, their host country already required this degree of transparency and openness. This was not to be the case for smaller banks, owned by individuals or private firms, who did not want to disclose this type of information. They believed this level of disclosure would impact negatively on their operations, and result in a loss of clients (Moshenets, 2012).

The proposed recommendations by the Basel Committee on Banking Supervision envisaged comprehensive categories of disclosed information by banking institutions, in order to achieve satisfactory levels of transparency. These included, in addition to financial information about a bank, specific materials such as capital,

paying capacity, and liquidity. Further information such as strategic plans and tactics for risk management, information about existing risks, and accounting politics, was also suggested. Additional details about the business and corporate management of the bank would also be included. Finally, transparency of this information would require well-timed submissions of this data.

In Ukraine, until 2011, in the sphere of structure ownership, the issue of change in essential participation was under the regulation, in particular – the order of acquisition and increases in essential participation (the legislation predicted obtaining permission for carrying out such actions). In accordance with the changes introduced to the Law of Ukraine: *“About Banks and Banking Activity”*, and the Law of Ukraine *“About Introducing Changes to Some Laws of Ukraine as to Regulating the Functioning of Banks”* No. 3024-VI from February 15, 2011, the legal entity or the individual who a) owns 10, 25, 50, or 75% or higher interests of authorized capital stock of a bank, or b) has the right to vote shares in the authorized stock, and c) intends to gain essential participation in the bank or enlarge it in a direct or indirect way, or d) independently influences management or banking activity as a result of this ownership, has to inform NBU about his or her intentions within three months of acquisition of the essential participation or the increase in ownership.

The Regulations *“About the Procedure of Presenting Information about Ownership Structure”* accepted by NBU in 2011 have become one of the normative documents that regulates the issue of direct and indirect ownership participation in banking institutions. Such a depiction of ownership structure allows identification of the final owners of banks with foreign participation, and recognition of real possibilities as to calculations in accordance with taken liabilities. In May 2015, this regulation lost its effect due to adoption of the new legal act – Regulation *“On the Procedure of Submitting Data on the Bank Ownership Structure”* No. 328 dated May 21, 2015. Unlike the previous one, this regulation contains a definition of the term **“final key stakeholders”**, which is interpreted as the key stakeholders – natural persons and legal entities which do not contain key stakeholders. Key stakeholders may also be: states, territorial communities, international financial institutions, and public companies. A public company is a

foreign legal entity established as a public joint-stock company, the shares of which are included in stock exchange lists (having undergone listing) and have been accepted for bidding in the regulated segment of a qualified stock exchange. Under that document, banking institutions in Ukraine have to submit to the National Bank of Ukraine complete information about ownership structure and key bank stakeholders, to ensure the possibility for tracing non-transparent schemes of bank establishment and activity.

Very often the structure of ownership of foreign banking institutions is scattered between considerable numbers of shareholders, belonging to different countries. Special attention should be paid to strategic investors of banks in Ukraine in order to prevent the loss of the Ukrainian banking sovereignty. At the same time, the documents mentioned above positively influence the transparency of ownership structure, aiming to provide control and supervision over the activity of banks. Normative documents concerning regulation of the ownership structure of banks do not dwell upon the issues of imposing sanctions for violations from the side of banks in the part of depicting information about owners, neither do they contain specific actions for providing safety of the Ukrainian banking system development, taking into consideration strategic goals of state capitals of foreign countries entering the Ukrainian market.

Proposed normative acts by NBU, as well as the changes to the Ukrainian legislation, introduce new concepts and provide new definitions to existing terms. These both help and confound the consumers of banking services. Having analyzed operating legal and regulation documents of Ukraine, we will give the definitions and characterize the key terms on a range of research problems.

The essence of ownership structure in Ukraine is in the Law of Ukraine: “*About Banks and Banking Activity*” No. 2121-III from 07.12.2000, and Law of Ukraine: “*About Financial Services and State Financial Market Regulation*” No. 2664-III from 12.07.2001 where the ownership structure is viewed as the system of relationships between individuals and legal entities. This makes it possible to identify all of the individuals who directly or indirectly participate in a legal entity, as well as the relationships within that legal entity, and the relationships of control between them and the legal entity. The essential

participation, in accordance with the legislation of Ukraine, is determined as the direct or indirect 10% of authorized fund ownership by a single person, or the ownership in cooperation with others, as well as the shareholders’ right to vote the shares of the legal entity; or, independent from the formal ownership, the possibility of exerting considerable influence over the management or the legal entity activity.

The definition of essential participation is closely connected with the idea of “direct participation” or “indirect participation” in banks. These terms help to identify the intensity of influence on banking institutions. Hence, the direct ownership participation in a bank predicts the ownership of banking shares on ownership rights. Indirect participation ownership in banks happens if a person independently or in cooperation with others satisfies one of the demands:

- exercises control (has a decisive influence on management) over the direct owner participant or group of direct owners of the bank (legal entity)
- exercises control over the direct owner participant of bank or the group of direct bank owners;
- acquires voting power of 10% or more of authorized banking capital at the general meeting of the participants by authorization of the participant of the bank (legal entity);
- possesses other than formal ownership of significant influence on the management or bank activity (legal entity) or any of the above mentioned legal entities;
- exercises control over the above mentioned people.

The selected problem of this research predicts the essential banking participation first of all of foreign investors. Hence, the bank with foreign capital, according to the Ukrainian legislation, is defined as a bank in which the share of capital belonging to one of the foreign investors, is less than 10%. The legislation of Ukraine also provides a definition of subsidiary and associated company., a subsidiary company is a legal entity, which is controlled by another legal entity (associated company), and an associated company is a legal entity which exercises control over another legal entity (subsidiary company). At the same time, the legislation indicates that

the associated bank is a Ukrainian bank, among its subsidiaries or associated companies, in which there is a bank or another institution that is not a subsidiary company of any other Ukrainian bank or bank holding company. The very definition concerns only the activity of the Ukrainian banks, **and doesn't mention the availability of the associated bank abroad.** If an associated foreign bank owns 50% or more of joint-stock or share capital, or the bank may exert considerable influence on the management or activity of the legal entity – this bank is a subsidiary structure of the foreign bank. The associated bank is liable for the subsidiary bank only within the frames of its investment.

A subsidiary company of the foreign bank is a legal entity of the recipient country. It follows banking, monetary regulations, and NBU supervision. Non-residents are the owners of such bank. At the same time, if there is direct or indirect ownership of 50% of authorized capital stock by one person independently or in cooperation with other persons, then the institution has a decisive influence on management or the activity of a legal entity. If the share is from 10 to 50% of authorized capital, the institution has a considerable influence on the management or the activity of the legal entity. Hence, the identification of the final owners of the banks, who directly or indirectly own the bank, may considerably influence the activity of the banking institution in the country where foreign investors are located, as well as the development of the whole banking system.

Particular attention should be paid to the identification of the owners, as well as to the origin of the capital, during the management activity of the subsidiary banking institutions. It is reasonable to analyze and disclose this information not only about the owners of the essential participation of the bank, but also about presidents as legal entities, and foreign individuals, who own less than 10% of the shares in the bank. Also the practice of the functioning of the bank system shows that very often the considerable number of banks with participation of nonresidents was created not by financially stable banks functioning abroad, but by individual non-residents, registered in offshore zones. The absence of clear management, along with the anonymity of capital owners may result in non-supervision at the banking market and the flow of capital abroad.

The positive steps in the way of providing transparency of banking activity in Ukraine were introduced in the context of the formation of banking supervision and on the basis of a consolidated framework. The demands as to the supervision of the banking group on the basis of a consolidated framework, taking into consideration foreign activity, and the exchange of information between bodies of supervision and the bodies of foreign capitals residence, were determined and recommended for use in banking practice by the Basel Committee on Banking Supervision. It was created in the following **documents:** “*Consolidated Supervision over the International Banking Activity*” (March 1979), “*The Principles of Supervision over the Foreign Banking Institutions*” (May 1983), “*Minimal Standards for Banking Supervision over the International Banking Groups and their Foreign Institutions*” (July 1992), “*The Supervision over Banking Activity of Foreign Institutions*” (October, 1996), “*The Basic Principles of Effective Banking Supervision*” (October, 2006) and others. At the same time, the fundamental changes as to the supervision on consolidated frameworks **were introduced into the Law of Ukraine:** “*About Banks and Banking Activity*” and adopted by banking practice of Ukraine only at the beginning of 2011. It was done in a way of decreed Law of Ukraine: “*About Introducing Changes to Some Laws of Ukraine as to Regulating of Banking Activity*” No. 3024-VI from 15.02.2011 as well as **the Law of Ukraine:** “*About Introducing Changes to Some Laws of Ukraine as to Supervision on Consolidated Framework*” No. 3394-VI from 19.05.2011.

These documents provide new definitions of such concepts as: “banking group”, “subsidiary company”, “associated bank”, “and participant of banking group”, and others. Banking supervision in the consolidated framework is defined as supervision over the banking group, conducted by NBU, for the sake of banking system stability and the limitation of risks which banks may face as a result of participation in banking groups. This supervision is accomplished by regulating, monitoring, and controlling risks of the banking group defined by the NBU order. On 09.04.2012, NBU approved resolution No. 134 “*About the Confirmation of Regulation and the Procedure of Identification and Recognition of Banking Groups*”. This resolution defines the essence of such concepts as “foreign banking groups”, “international banking group”, “the country of

origin”, and “the structure of banking group ownership”. Hence, international banking group is the group of financial institutions connected with each other by means of control, the activity of which is represented by more than one country, and which is under supervision of the consolidated framework from the side of the foreign supervision body. The foreign banking group is defined as a banking group which is a part of an international banking group. These definitions are rather vague with regard to the criteria in which an international banking group differs from the foreign one. In other words, an international banking group should include several foreign banking groups, and the foreign bank which is included in the structure of the international banking group and has subsidiary financial institutions is a foreign banking group.

The statement mentioned above treats the definition of “the structure of banking group ownership” in a similar manner. It reflects the system of mutual relations between legal entities and individuals, which makes it possible to identify all the members of banking group who have a common supervisor. Therefore, the recognition of banking group existence as a regulator, should follow two cases (that is predicted by the meaning of the concept “banking group”). First of all, when the group of legal entities consists of an associated bank and its Ukrainian and foreign subsidiaries or associated companies that are financial institutions, and secondly, when the group of legal entities has a common supervisor (owner), it consists of two or more financial institutions and the a share of assets for the last four quarters under review exceeds 50% of aggregated assets of all financial institutions, that joined this group during the period. At the same time, banking group identification can be conducted either by supervisors (owners) or by NBU independently.

Another document, resolved by NBU is “*The Procedure of Banking Groups Regulation*” approved by the decision of NBU Board No. 254 from 20.06.2012. It regulates the order of consolidate regulative capital of a banking group or subgroups of a banking group, the demands as to its sufficiency, as well as obligations for accomplishment within the economic norms of banking groups, making and submitting the financial reports. At the same time, the subgroups of banking groups, determined in accordance with geographic criteria have to follow the demand as to the sufficiency of

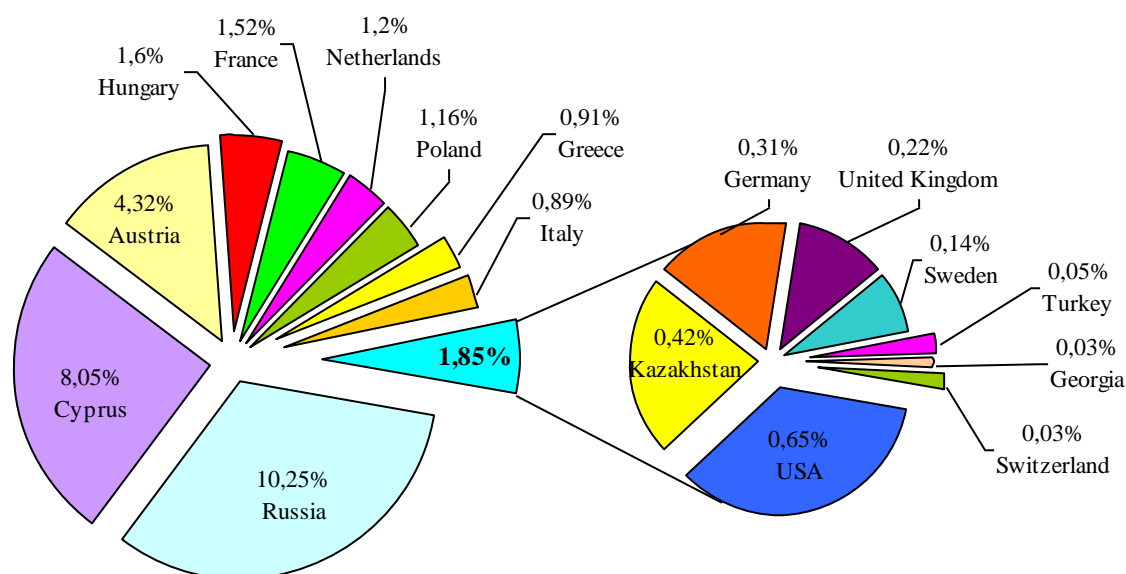
regulative capital as well as the whole economic norms determined by this issue. NBU doesn't have any influence on the estimation and regulation of the international banking group activity. It predicts the supervision over the foreign banking group. Hence, NBU has the right to appeal to foreign bodies of supervision in order to specify or obtain the information necessary for identification, recognition or ceasing the recognition of banking group.

Innovations of NBU supervision on consolidated frameworks, in our mind, positively characterize the intentions of the regulator to ensure transparency of running the banking business and the stable activity of banking institutions on the Ukrainian market. One should take into consideration the following aspects: the majority of financial groups on the Ukrainian market are considered to be banking from the point of view of the most developed banking sector. The necessity in the depiction of ownership in banks will be slightly reflected on foreign banking structure with the participation share of the huge international banking groups, because such institutions are considered to be the most open and transparent in their activity. The less visible banking conglomerates may be identified as those which predict the presence of one owner and may cause uncertainty in the cases when such an owner or supervisor does not want to be disclosed because of his belonging to a certain section of society or political party.

The structure of banking ownership to our mind, has a considerable influence on the development of the banking system of the country as a whole and depends, first of all on the goals set by international banking groups in Ukraine. The basic targets of the foreign banks when entering external markets are the following: the possibility of obtaining higher revenue in the country of disposition more than in the country of origin, making deals and serving big companies that enter foreign markets, and serving and providing control over the strategic branches of economy.

The analysis of foreign investors' participation on the banking market of Ukraine shows that up to 01.01.2015, foreign banks in Ukraine were represented by 17 countries. In particular among the foreign investors, that have been investing their capital into the Ukrainian banking business, we would point out Russia, Cyprus and Austria. The shares of these countries are distributed

accordingly: 10.25 %, 8.05 % and 4.32% (Fig. 2).



**Figure 2.** The presence of the foreign capitals in Ukraine in the cut of foreign countries investors for the period of 01.01.2015, %

There are several countries with the share of foreign capital of less than 4%: Hungary (1.6%), France (1.52%), Netherlands (1.2%) and Poland (1.16%). Besides, there are several foreign banks in Ukraine, the capital shares of which in the general scope of authorized capital, consist of less than 1%: Greece (0.91%), Italy (0.89%), USA (0.65%), Kazakhstan (0.42%), Germany (0.31%), United Kingdom (0.22%), Sweden (0.14%), Turkey (0.05%), Georgia (0.03%) and Switzerland (0.03%).

We may trace the absolute value of the authorized capital which falls into the participation of foreign investors in Ukraine, as well conduct the analysis of foreign participation in the cut of banking groups correlated with the size of assets (Table 1). It should be stressed that the majority of banks with foreign capital acting in Ukraine depends on the groups of the biggest or big banks. So, in accordance with the distribution of banks into groups, for 2015, the first group encompasses 11 banks with foreign capital out of 16 banking institutions included in this group. (3 of them have 100% of foreign

participation) Out of 19, 10 institutions belong to the second group (4 banks with 100% of foreign capitals). The rest of the banks with foreign capital are referred to third (15 out of 33) and the fourth group (15 out of 95).

The owners of the biggest banks of Ukraine with foreign capital, belonging to the first group are: Raiffeisen Bank International AG, Austria (PJSC "Raiffeisen Bank Aval"), UniCredit Bank Austria AG, Austria (PJSC "Ukrsotsbank"), UniCredit Bank Austria AG, Austria (PJSC "Ukrsotsbank"), The State corporation "The Bank of development and foreign economic activity (Vneshekonombank)", Russia (PSC "Prominvestbank"), OJSC "VTB BANK, Russia (PJSC "VTB Bank"), BNP Paribas S.A., France (PJSC "UkrSibbank"), OJSC "Alfa bank", Russia (PJSC "Alfa-Bank"), Cargill Financial Services International Inc., USA (JSC "Delta Bank"), OJSC "The Central Saving Cashier's Office and Commercial Bank", Hungary (JSC "OTP Bank"), OJSC "SberBank" Russia (PJSC "Subsidiary Bank Sberbank of Russia") and others.



Table 1. Indexes of foreign investors' participations in the banking system of Ukraine for 01.01.2015\*

Group of banks Index	Group 1	Group 2	Group 3	Group 4	Total by banking system of Ukraine
The number of banks	16	19	33	95	163
The number of foreign participation banks	11	10	15	15	51
of them: the number of banks with 100% foreign participation	3	4	6	6	19
Scope of authorized capital of banks:					
million UAH	108 058.35	31 265.26	17 525.78	22 358.12	179 207.51
million \$**	6 852.77	1 982.76	1 111.44	1 417.89	11 364.87
Scope of authorized capital of banks with foreign capital:					
million UAH	57 490.78	11 932.74	8 486.69	2 507.05	80 417.27
million \$	3 645.91	756.74	538.2	158.99	5 099.85
of them: Scope of authorized capital of banks with 100% foreign capital:					
million UAH	10 899.77	1 763.37	3 149.40	1 120.96	16 933.5
million \$	691.24	111.83	199.73	71.09	1 073.88
Scope of foreign capital in authorized capital of banks:					
million UAH	38 190.65	9 317.92	7 434.3	1 941.2	56 884.05
million \$	2 421.95	590.92	471.46	123.11	3 607.44
Share of foreign capital in authorized capital of banks, %	35.34	29.80	42.42	8.68	31.75

- Calculated on data the National Bank of Ukraine. Retrieved from [www.bank.gov.ua](http://www.bank.gov.ua)
- By the official foreign currency exchange rate, National Bank of Ukraine. Retrieved from [www.zakon4.rada.gov.ua/laws/show/n0502500-14](http://www.zakon4.rada.gov.ua/laws/show/n0502500-14)

The analysis of foreign countries in the group of banking group institutions in Ukraine shows that such countries as Russia and Cyprus are represented in different groups of banks,

especially among the biggest, as well as the smallest banks of Ukraine (Table 2).

Russian Federation shows the biggest activity among foreign investors. For 01.01.2015 there were the following banks functioning in Ukraine: PJSC “Subsidiary Bank Sberbank of Russia”, PJSC “VTB Bank”, PJSC “Alfa-Bank”, PSC “Prominvestbank”, JSC “BM Bank”, PJSC “PETROCOMMERCE-UKRAINE BANK”, PJSC “Bank FORWARD”, JSC TRAST BANK. At the same time there were 8 banks with Russian capital and 4 banking institutions belong to Russian investors at 100%. The Russian banking capital is presented in banks that belong to different groups in accordance with the distribution of asset size. At the same time the biggest share of the Russian capital is located among the banks of the 1<sup>st</sup> group, the biggest in Ukraine (15.64 % Russian capital in foreign capital of the first group). It should be noted that the Russian banks at post-soviet extension are densely presented in Ukraine. Ukraine covers more than 70% of foreign subdivisions of credit organizations and almost a half of the subsidiary banks (Abalkina, 2011).

The presence of a considerable share of Cyprian capital is a characteristic feature of Ukraine. In particular, 13 banks with foreign investments out of 51 that acted in Ukraine were under the control of Cyprian companies. Cyprus in Ukraine is presented with such banks as: JSC “TASKOMBANK” (the direct participation of Cyprus is 99.7404%), PJSC “NEOS Bank” (95.8143 % belong to Cyprian investors), PJSC “ASVIO Bank” (the direct participation of the Cyprian company is 17.3466 %), PJSC “Bank Avangard” (share of Cyprus – 99.9902 %), PJSC “MARFIN BANK” (99.9100%), PJSC “PrivatBank” (the direct participation of the Cyprian company, Ukrainian shareholders own 16.2333%) and others. There are banks with 100% of Cyprus capital – PJSC “Credit Dnepr Bank”, PJSC “Platinum Bank”, PJSC “DV BANK”, and JSC “BANK UNISON”. While analyzing the structure of Cyprus bank ownership, we established the fact that the majority of them have the Ukrainian shareholders as the ultimate owners. Especially, the examples may be PJSC “PrivatBank”, PJSC “DV BANK” and others. That’s why the real depiction of the foreign participation capital in the banking system is rather questionable. The legislation of Ukraine does not define Cyprus as one of the off-shore zones: KMU from 23.02.2011 No. 143. Concerning providing a campaign against non-

taxpayers and flowing off capitals to off-shore zones. Cyprus on a pro forma basis is considered to be the biggest investor in Ukraine, but the majority of Cyprian companies that invest money into the Ukrainian economy belong to the Ukrainian owners. Ukraine signed new the **convention with Cyprus “About avoiding double taxation and preventing tax income evasion”**. It has to change valid convention adopted in 1982 (Pasochnyk V., 2012). At the same time, it should be mentioned that the owners of the companies, in order to protect their interests, keep confidentiality, and comfortable conditions for running business may transfer their business into other off-shore jurisdictions. Along with further improvement of the taxation code, and to prevent flow-off of capital abroad, it is reasonable to enhance investment attractiveness of Ukraine.

The banks with Austrian capital, functioning in 2015 in the territory of Ukraine are: PJSC “Raiffeisen Bank Aval” (share of Raiffeisen Bank International AG – 96.4400%), PJSC “UkrSotsbank” (direct participation of UniCredit Bank Austria AG consists 37.3529%), JSC “Bank “Nadra” (89.9659% of Austrian capitals), PJSC “VS BANK” (99.9230 % of Austrian capitals), as well as the bank with 100% of Austrian capital, PJSC “Erste Bank Ukraine”. It should be noticed that in the second part of 2012, there were changes in the scope of Austrian and Russian capital with the advantage of the last. “Sberbank of Russia” bought the Austrian group Volksbank International AG and started controlling PJSC “VOLKSBANK” (today PJSC “VS Bank”, their shareholders Sberbank Europe AG (Austria), whose owners are Russian investors). The fact strengthens numeral positions of Russian investors in Ukraine (Hrynkov, 2012, No. 38).

Among the French with invested participation, we would like to stress PJSC “Credit Agricole CIB” (direct participation of Credit Agricole S.A. – 99.9960%), PJSC “UkrSibbank” (84.9996% share of BNP Paribas S.A.).

So, the neighboring countries as well as European countries are active investors of the Ukrainian banking sector. As a rule, the functioning of foreign banks in the recipient country very often begins with the servicing of the big clients of the banks, who conduct their activity at foreign markets.

**Table 2.** The scope and shares of foreign capitals in the authorized capitals of the banks of Ukraine in the cut of countries and group of banks for 01.01.2015\*

Group of banks Country	Group 1		Group 2		Group 3		Group 4		Total by banking system, million UAH (million \$)
	Scope, million UAH (million \$)	Share in the group, %	Scope, million UAH (million \$)	Share in the group, %	Scope, million UAH (million \$)	Share in the group, %	Scope, million UAH (mill \$)	Share in the group, %	
1. Russia	16 904.03 (1 072.01)	15.64	–	–	1 059.4 (67.18)	6.04	402.22 (25.51)	1.8	18 365.65 (1 164.7)
2. Cyprus	7 577.47 (480.54)	7.01	4 074.34 (258.38)	13.03	1 906.01 (120.87)	10.88	866.15 (54.93)	3.87	14 423.96 (914.72)
3. Austria	7 317.75 (464.07)	6.77	–	–	419.68 (26.62)	2.39	–	–	7 737.43 (490.69)
4. Hungary	2 868.19 (181.89)	2.65	–	–	–	–	–	–	2 868.19 (181.89)
5. France	1 508.18 (95.65)	1.4	1 222.88 (77.55)	3.91	–	–	–	–	2 731.06 (173.2)
6. Netherlands	–	–	1 893.57 (120.09)	6.06	252.50 (16.01)	1.44	–	–	2 146.07 (136.1)
7. Poland	–	–	1 910.63 (121.17)	6.11	171.8 (10.9)	0.98	–	–	2 082.43 (132.07)
8. Greece	–	–	–	–	1 627.56 (103.22)	9.29	–	–	1 627.56 (103.22)
9. Italy	653.51 (41.44)	0.6	–	–	949.17 (60.19)	5.42	–	–	1 602.68 (101.63)
10. USA	1 095.37 (69.47)	1.01	66.50 (4.22)	0.21	–	–	3.62 (0.23)	0.02	1 165.49 (73.92)
11. Kazakhstan	–	–	–	–	749.83 (47.55)	4.28	–	–	749.83 (47.55)
12. Germany	–	–	75.00 (4.76)	0.24	252.94 (16.04)	1.44	228.67 (14.5)	1.02	556.60 (35.3)
13. United Kingdom	266.15 (16.88)	0.25	75.00 (4.76)	0.24	45.4 (2.88)	0.26	–	–	386.55 (24.52)
14. Sweden	–	–	–	–	–	–	251.53 (15.95)	1.12	251.53 (15.95)
15. Turkey	–	–	–	–	–	–	88.05 (5.58)	0.39	88.05 (-5.58)
16. Georgia	–	–	–	–	–	–	51.4 (3.26)	0.23	51.4 (-3.26)
17. Switzerland	–	–	–	–	–	–	49.57 (3.14)	0.22	49.57 (-3.14)
<b>Total</b>	<b>38 190.65 (2 421.95)</b>	<b>35.34</b>	<b>9 317.92 (590.92)</b>	<b>29.8</b>	<b>7 434.3 (471.46)</b>	<b>42.42</b>	<b>1 941.2 (123.11)</b>	<b>8.68</b>	<b>56 884.05 (3 607.44)</b>

- Calculated on data the National Bank of Ukraine. Retrieved from <http://www.bank.gov.ua>

The necessity of clear and well-timed depiction of the ownership structure of banking institutions is specified, in our opinion, with the shuffling of share participation of foreign investors in the Ukrainian banks. During the last two-three years the ownership structure of foreign capital has undergone considerable

changes. It turned out to be not a quantitative change of banking institutions with foreign capital, but the change in banking ownership, that is connected with the stable process of share capital increasing or decreasing in the banks with foreign participation.

During the period 2011–2014 the change in

participation shares has been observed in many banks. PJSC “Bank of Cyprus” (direct participation of Cyprus capital was 22.7853%) was sold in 2014; PJSC “Alfa-bank” with Russian capital, and PJSC “Bank Pershiy”, renamed the PJSC “BG Bank”, were the part of Georgia in the authorized capitals in 2012 which decreased from 99.3950% to 19.3950% (later in 2014 bank renamed into PJSC “BG Bank”). Also the changes are observed in such banks as PJSC Bank “Kyivska Rus” (the participation of Cyprus capital in the authorized fund decreased from 51% to 39.9685%), PJSC “PETROCOMMERCE-UKRAINE BANK” (Russian participation grew from 90.0616% to 96.4835%), PSC “Prominvestbank” (the participation of Russian investors grew from 93.8403% to 97.8502%), PJSC “The Ukrainian construction investment bank” (the share of Switzerland decreased from 45.0252% to 37.1445%) and others.

Having analyzed all mentioned above, we point out some tendencies, both positive and negative:

- the share of foreign participation in the banking system of Ukraine has constantly been growing, but recently there has been considerable shuffling of foreign capital in the banks of Ukraine. It is the evidence of positive movement in the banking system development.
- during the period of acute financial crisis we observe the reduction of European banking activity in the banking sector of Ukraine. The evidence looks like reduction of the scope of operations, leaving the market, and strengthening the positions of Russian investors.
- banking institutions with foreign capital own the biggest banks, banks that belong to huge banking institutions. This considerably influences the trust towards the banking system and shows the possibility of its future development. The foreign banking groups are interested in the creation of subsidiary structures and in the functional banks' participation, having a network of branches and feeling relaxed about opening the new ones.
- the state regulation of banking activity with foreign capital in Ukraine goes the same way as with Ukrainian banks. Taking into account the modern stage of banking system development and the necessity to stimulate it

safely, regulatory bodies try to provide transparency of running banking businesses because of real depiction of information by banking institutions about their activity and ownership structure. Banking institutions with foreign participation are considered to be the most transparent; the owners of essential parts as well as banking group identification are under careful control and supervision. In our opinion, more attention should be paid to the institutions that change formal owners to foreign shareholders: the Ukrainian investor is the final beneficiary.

The steps of regulatory bodies are very positive in our mind. This concerns the reflection of the depiction of banking ownership, and introduces appropriate changes to the legislation in the context of satisfying the demands (for example, entering WTO, or the demand of IMF so on), in particular, as to the possibility of opening branches of foreign banks in Ukraine, the provision of consolidative supervision of banking groups and so on. Simultaneously, there are gaps as to terminology, definitions and legal contradictions in the documentation, acts, and definitions of the concepts of stimulating of foreign investments attraction, as well as working out the concept of state regulation of foreign banking development in Ukraine. This might have included the basic criteria of the **functioning of an investor's participation** in Ukraine, the assistance in the development of national economy, as well as the criteria of leaving the Ukrainian banking market.

## CONCLUSIONS AND RECOMMENDATIONS

The improvement of regulatory functions of the state bodies and the legislative basis is important to offer directions for providing the development both of banking systems and economics of the country as a whole. The steps towards improving the transparency of running businesses and disclosing the information about the structure of ownership is very positive. To our mind it will empower the owners of both the direct and indirect participation in banks of Ukraine. However, there are some drawbacks. The frequent changes introduced into the legal documentation are very controversial. As to prospects of real ownership structure, the reflection of banking institutions with foreign capital attracts the consumers of banking

services. It may be a vital factor while choosing the bank. Otherwise, to our mind one should pay attention both to the owners of the bank, and to its financial stability as well as to the possibility of being influenced by negative influences in the economy and guarantees of the interests of its clients.

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## ABOUT THE AUTHORS

Serhij Reverchuk email: [revelit@ukr.net](mailto:revelit@ukr.net)

**Dr. Serhij Reverchuk** is the Professor and Chair of the Banking and Insurance Department at Ivan Franko National University of Lviv, Ukraine. He is the author of 12 books and 185 articles. Dr. Reverchuk is an Academic of the Ukrainian Academy of Economic Sciences. Professor Reverchuk research interest include European corporate restructuring, the regulation of banks and financial institutions, credit risk and the valuation of corporate debt, and asset pricing with a focus on the effects of liquidity risk.

**Dr. Ulyana Vladychyn** holds PhD in Economics and is the Assistant Professor in the Department of Banking and Insurance Business at Ivan Franko National University of Lviv in Ukraine. Her research interest: the foreign banking, the activity of banks with foreign capitals in Ukraine and other countries, the state regulation of foreign banking, credit management, mortgage crediting, investment crediting. Dr. Vladychyn is an author of 5 books and 60 scientific papers. She has been participated and presented in over twenty academic conferences.

**Dr. Charlotte Davis** is an Assistant Professor of Management at Concord University in Athens, WV. Dr. Davis earned her degrees from Texas Tech University, Wayland Baptist University, and the University of Memphis. Her research interests are in the area of expatriate management; employee motivation, culture and HR strategy; immigrant professionals; and grief in the workplace. She teaches courses in International Business, Human Resource Management, Business Ethics, and Principles of Management. She has taught at the University of Memphis, Christian Brothers University (Memphis), Vienna University of Economics and Business (WU), and Concord University. She is in charge of an international exchange program between Concord University and Universidad Politécnica de Puebla in Mexico, and is working with the Collaborative Online International Learning (COIL) program in the State of West Virginia. She holds a CPA, PHR certification, and SHRM-CP certifications.