



Dr. h.c. Rudolf Böhmler (Hrsg.)

**30 JAHRE  
FACHHOCHSCHULE DER  
DEUTSCHEN BUNDESBANK**



Juni 2010



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Festschrift



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## Vorwort des Herausgebers

Betrachtet man die hochschulrechtliche Anerkennung durch die damalige Kultusministerin von Rheinland-Pfalz, Frau Dr. Laurien, vom 19. März 1980 als offiziellen Startschuss, so besteht die Fachhochschule der Deutschen Bundesbank in Hachenburg im Frühjahr 2010 nunmehr 30 Jahre. Das ist in Anbetracht der Geschichte anderer Bildungsinstitutionen in Europa – die älteste Hochschule der westlichen Welt wurde 1088 in Bologna gegründet – kein herausragendes Alter, sicherlich aber Anlass genug für eine Zwischenbilanz.

Die eigentliche Ursache für die Gründung der Fachhochschule der Deutschen Bundesbank liegt in einer Änderung des Bundesbeamtengesetzes vom 18. August 1976. Damals wurde für die Laufbahnen des gehobenen nichttechnischen Dienstes in den öffentlichen Verwaltungen eine Fachhochschulausbildung vorgeschrieben, um den immer komplexer werdenden Aufgaben des Staates durch eine intensivere Ausbildung der Beschäftigten Rechnung zu tragen. Der Gesetzgeber schuf damit für diese Laufbahnen dieselben Voraussetzungen, wie sie bereits für andere Laufbahnen des gehobenen Dienstes, etwa in den Bereichen Technik, Sozialarbeit oder Schuldienst, galten. Dass die Deutsche Bundesbank nach intensiver Prüfung von Alternativen eine eigene Fachhochschule errichtete und sich nicht unter das Dach einer anderen Verwaltungshochschule begab, war auf das Bestreben zurückzuführen, einen möglichst genau auf die Bedürfnisse der Bundesbank zugeschnittenen Studiengang mit eigener Identität gestalten zu können.

Das Ausbildungskonzept der Fachhochschule der Deutschen Bundesbank ähnelt – bei allen Unterschieden in den Ausbildungsinhalten – dem der 36 anderen Fachhochschulen für den öffentlichen Dienst, die derzeit in Deutschland existieren. Die Gründungsphilosophie dieser von den Ländern und dem Bund zumeist in den Jahren von 1976 bis 1980 errichteten Hochschulen ist auch heute noch gültig: Durch ein duales Studium, d.h. eine an den Bedürfnissen des Trägers ausgerichtete, enge Verzahnung von Theorie und Praxis soll dem beamteten Nachwuchs sowohl die wissenschaftlichen Grundlagen und Methoden als auch die berufspraktischen Kenntnisse vermittelt werden, die zur Erfül-

lung der Aufgaben einer Laufbahn erforderlich sind. Neben der fachlichen und persönlichen Weiterentwicklung sollen die Studierenden außerdem zu verantwortlichem Handeln und aktiver Teilhabe an unserem demokratischen Gemeinwesen befähigt und angeleitet werden.

Seit ihrer Gründung hat sich die Fachhochschule der Deutschen Bundesbank – trotz manch anfänglicher Skepsis – einen hervorragenden Ruf in der Bank erworben. Ihre inzwischen knapp 3000 Absolventinnen und Absolventen waren und sind in den verschiedenen Aufgabenfeldern der Bundesbank außerordentlich geschätzt. Bereits kurz nach Errichtung der Fachhochschule haben neben der Deutschen Bundesbank auch andere Behörden, insbesondere die Bundesanstalt für Finanzdienstleistungsaufsicht (früher: Bundesaufsichtsamt für das Kreditwesen) und die Bundesschuldenverwaltung, Studierende an die Hochschule entsandt, um ebenfalls von der anwendungsorientierten und praxisbezogenen Ausbildung zu profitieren. Auch außerhalb des öffentlichen Dienstes, vor allem bei Banken und Sparkassen sowie Wirtschaftsprüfungs- und Unternehmensberatungsgesellschaften haben im Laufe der Jahre etliche „Ex-Hachenburger“ Karriere gemacht. Seit Gründung der Fachhochschule sind allerdings bislang nur wenige hundert Absolventinnen und Absolventen aus dem Dienst bei der Deutschen Bundesbank ausgeschieden. Ein Teil dieser außerordentlichen „Betriebstreue“ ist sicherlich auch dem „Corpsgeist“ ge-

gemeinsame

schult, das die Studierenden durch ihr Leben und Arbeiten auf dem Campus in Hachenburg vermittelt.

em ständigen  
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 studiengang.

Eine Hochschule mit dem Auftrag, den Nachwuchs für eine in einer  
 Wandlungsprozess befindliche Zentralbank auszubilden, kann nie  
 wicklung abgeschlossen sein; sie muss ihre Lehrinhalte und ih-  
 stets weiterentwickeln, um sich den veränderten Anforderunge  
 Dieser Reformprozess wird auch in Zukunft weitergehen, um die  
 qualifikationen mit den Anforderungen, die das System der Europä  
 ratbanken in einem dynamischen Prozess immer neu definiert, ir  
 bringen. Ein Meilenstein auf diesem Weg ist die im Zuge d  
 Prozesses zur Schaffung einheitlicher europäischer Studienabsch  
 sehene Umstellung des derzeitigen Diplom- auf einen Bachelor

Mit dem in Kürze startenden Bachelorstudiengang wirkt die Fachhochschule am gemeinsamen europäischen Bildungsprojekt mit und eröffnet der Bundesbank die Möglichkeit, einige der Studienplätze auch anderen Zentralbanken und Aufsichtsbehörden im Europäischen System der Zentralbanken zur Verfügung zu stellen. Auf diese Weise können die Kontakte zu ausländischen Hochschulen mit Zentralbankbezug, die in den vergangenen 10 Jahren vor allem zur Graduate School der People's Bank of China in Peking, der Ukrainian Academy of Banking in Sumy, der Banking University in Kiew und der Polessky State University in Pinsk aufgebaut wurden, durch ein gemeinsames Lernen mit Studierenden von ausländischen Zentralbanken ergänzt werden.

Die vorliegende Festschrift, zu der auch einige Professoren von ausländischen Partnerhochschulen beigetragen haben, soll den Leserinnen und Lesern einen Einblick in die Lehr- und Forschungsschwerpunkte der Fachhochschule der Deutschen Bundesbank geben. Die vielen Artikel, die aus der Feder von Lehrbeauftragten stammen, belegen die enge Verzahnung der Institution mit praktischen Fragestellungen aus den verschiedenen Geschäftsfeldern der Bank. Die nachfolgenden Beiträge, die in Anlehnung an die Fachrichtungen den Rubriken

- I. Hochschulfragen
- II. Allgemeine Betriebswirtschaftslehre und Bankbetriebslehre
- III. Volkswirtschaftslehre und empirische Wirtschaftsforschung
- IV. Recht und Staatswissenschaften sowie
- V. Zentralbankbetriebslehre

zugeordnet wurden, versuchen gemeinsam, das Spektrum der Hochschule zu verdeutlichen. Da die Fachhochschule mit ihren Absolventinnen und Absolventen ein wertvolles „Asset“ für die Bundesbank darstellt, bleibt zu hoffen, dass sie auch in Zukunft entscheidend an der Ausbildung des Nachwuchses mitwirkt.

Frankfurt am Main, im Juni 2010

Dr. h. c. Rudolf Böhmler  
Mitglied des Vorstands der Deutschen Bundesbank

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# **Peculiarities of price formation in the banking business of Ukraine**

*Dr. Serhiy Kozmenko, Dr. Tetiana Vasilyeva, Ph.D. Serhiy Leonov<sup>1</sup>*

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## 1. Summary

The article defines the peculiar features of price formation in the banking business of Ukraine, systematizes the problems in the assessment of value characteristics of the banking activity in Ukraine. The analysis of purchase and sale agreements of Ukrainian banks demonstrates that foreign investors are more interested in the branch network of banks and their customers while Ukrainian investors are more interested in the possibilities to increase capitalization. The analysis of the activity of Ukrainian banks on the stock-market shows that the assessment of the banking business value only on the basis of the value of banks' shares is impossible and requires the use of special analytical methods.

## 2. Importance

The latest trends in the development of the banking system of Ukraine (banks becoming joint-stock companies, their participation in the stock market, growth of competition and increase in the share of foreign investors on the market of banking services) have contributed to the growing attention to the assessment of the banking activity's price characteristics. This explains the necessity to take into account not only the total sum of the banks' material assets, but a number of other components of their activity such as customer base, image, non-material assets, business reputation, which form the banking business. The value of the banking business can be determined not only in the context of its sale, merger or acquisition, attraction of investment and placing shares on the stock market, but also seen as an important informative complex indicator, which is of interest to a wide range of counterparts and which provides the assessment of the efficiency of management, successfulness, stability, banks' attractiveness for investments. This creates the possibility to study the growth in the value of the banking business as an integral indicator of the successfulness of banks' activity.

Theoretical background and practical mechanisms for defining the value characteristics of the banking activity are actively studied in the world scientific

literature. Some aspects of this problem are presented in the works of such renowned researchers as Nick Antill, Aswath Damodaran, Keneth Lee, T. Koller, T. Copeland, J. Murrin, A. Rappaport, Peter S. Rose, Joseph F. Sinkey, Stern J.M., G. Bennett Stewart, Michael Martin Hammer, James Champy, William F. Sharpe, Shiely J.S and others. However, despite the huge number of scientific works in this area the problem of price formation in the banking business still remains unsolved. In need of further investigations are the issues dealing with: the formation of systematic approach to the definition of the banking business value and shareholder capital of banks; specific features of the banking activity in Ukraine and peculiarities of the national regulation in the evaluation process; qualitative and quantitative assessment of factors, which determine the value of the banking business, etc.

*The goal of the article* is to define the specific features of price formation in the banking business of Ukraine, systematization of problems in the assessment of price characteristics of Ukraine's banking activity.

### **3. Results**

The need in the assessment of bank's value has appeared only recently due to the relatively young age of the Ukrainian banking system. The rising interest to this problem is explained by growing competition on the market of banking services in the recent years and the inflow of foreign capital to this market. Some data on the development of the banking system in Ukraine in the last years and the role of the foreign capital in it is presented in Table 1.

Table 1: Some characteristics of the banking system's development in Ukraine in 2002-2008.

<b>Indicators</b>	<b>Years</b>						
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Number of banks	157	157	160	165	170	175	184
Number of banks with foreign capital	20	19	19	23	35	47	53
Number of banks, in which the share of foreign capital is 100 per cent.	7	7	7	9	13	17	17
Share of foreign capital in the capital of banks, per cent.	13,7	11,3	9,6	19,5	27,6	35,0	36,7
Assets, bln. Hryvnas.	63,9	100,2	134,3	213,9	340,2	599,4	973,3
Assets, per cent to the GDP.	28,3	37,5	38,9	48,4	62,5	84,5	102,5
Assets, annual growth rate, per cent.	34,3	56,9	34,0	59,2	59,1	76,2	62,4
Financial depth (deposits to GDP ratio), per cent.	17,0	22,0	23,0	30,0	33,9	38,8	37,9
Credits, per cent GDP	20,7	23,4	25,4	32,2	45,1	60,6	83,4
Credits/Deposits, per cent.	123,9	119,2	117,2	117,8	146,4	173,6	220,3
Capital, bln. Hryvnas.	10,0	12,9	18,4	25,4	42,6	69,5	119,3
Regulatory capital adequacy (H2)	18,0	15,1	16,8	15,0	14,2	13,9	14,01
Assets profitability, per cent.	1,27	1,04	1,07	1,31	1,61	1,5	1,03
Capital profitability, per cent.	7,97	7,61	8,43	10,39	13,52	12,67	8,51
Net interest margin, per cent.	6,0	5,8	4,9	4,9	5,3	5,0	5,3

Till 2009 foreign banks had been trying to leave the oversaturated European markets for the markets of Eastern Europe and the CIS (Commonwealth of Independent States), which had been rapidly developing in the previous years. Today, a considerable number of Ukrainian banks are in the ownership of foreign investors, which is shown by the data in Table 2.

Table 2: Dynamics of buying the strategic parcels of shares of Ukrainian banks in 2004-2008.

<b>Banks</b>	<b>Buyers</b>	<b>Cost of the deal, mln. US dollars</b>	<b>Size of parcels percent</b>	<b>Multiplier</b>	<b>Date of the deal</b>
<b>2004:</b>					
Joint-stock commercial bank "Azhib"	Vilniaus Bank (SEB Group)	27,50	98,00	1,67	17.12.2004
<b>2005:</b>					
Joint-stock commercial bank "Aval"	Raiffeisen International Bank-Holding AG	1028,00	93,50	3,70	20.10.2005
Joint-stock commercial bank "UkrSib-bank"	BNP Paribas Group	350,00	51,00	3,60	20.12.2005
<b>2006:</b>					
Closed joint-stock commercial bank "NRB-Ukraina"	Sberbank	150,00	100,00	4,30	12.01.2006
Joint-stock commercial bank "Mriya"	Vneshtorg-bank	70,00	98,00	1,57	31.01.2006
Joint-stock commercial bank "Lviv"	Vostock Holdings ehf. Hraunbjarg ehf.	6,77	52,07	2,26	22.05.2006

<i>Banks</i>	<i>Buyers</i>	<i>Cost of the deal, min. US dollars</i>	<i>Size of parcels percent</i>	<i>Multi-plier</i>	<i>Date of the deal</i>
Joint-stock commercial bank "Raiffeisenbank Ukraina"	OTP Group	834,00	100,00	5,91	01.06.2006
Open joint-stock company "Universal"	EFG Eurobank	49,50	99,34	3,33	18.07.2006
Closed joint-stock commercial bank "Agrobank"	PPF Group	40,00	100,00	3,50	28.07.2006
Joint-stock company "Index-bank"	Credit Agricole S.A. (CALYON)	260,00	99,97	5,50	31.08.2006
<b>2007:</b>					
Joint-stock commercial bank "Prestige"	Erste Bank der oesterreichischen Sparkassen AG	104,00	100,00	1,76	26.01.2007
Joint-stock commercial bank "TAS-Kommerzbank Ukraine"	Swedbank AB	735,00	99,98	4,95	07.02.2007
Open joint-stock company "Morskiy transportniy bank"	Marfin Popular Bank	137,40	99,20	4,49	19.03.2007
Open joint-stock society "International commercial bank (ICB)"	Piraeus Bank	75,30	99,60	3,50	18.05.2007
Joint-stock commercial bank "Ukrsotsbank"	UniCredit Group	2070	95,00	5,50	05.07.2007

<i><b>Banks</b></i>	<i><b>Buyers</b></i>	<i><b>Cost of the deal, min. US dollars</b></i>	<i><b>Size of parcels percent</b></i>	<i><b>Multiplier</b></i>	<i><b>Date of the deal</b></i>
Joint-stock bank "Faktorial-bank"	SEB Group	120,00	97,25	4,50	18.11.2007
<b>2008:</b>					
Open joint-stock commercial bank "Praveksbank"	Intesa Sanpaolo	779,00	100	4,54	02.07.2008
Public joint-stock society "Delta Bank"	Icon Private Equity	350,00	49	6,5	24.06.2008
Open joint-stock commercial bank "Astra Bank"	Alpha Bank Group Greece	21,00	97	1,5	25.03.2008
Joint-stock commercial bank "Kreditprombank"	Societe Generale	660,00	75	–	No deal
Joint-stock company Rodovid Bank"	Allied Irish Bank	450,00	60	3,24	No deal
Joint-stock commercial bank "Ukrinbank"	Hapoalim	136,00	75,8	2,27	No deal
Joint-stock commercial bank "Ukrgazbank"	National Bank of Greece	790	100	4,29	No deal

Studying the data in Table 2 we come to the conclusion that the Ukrainian banking system posed a considerable interest for foreign investors, who not only took part in the management of banks, but were seeking full control over their assets. It should be pointed out, though, that foreign and domestic investors had different views on both the value of the banking business and the choice of factors behind it.



Considering the specifics of the purchased banks we can make the conclusion that foreign investors were more interested in the branch network of banks and their customers while domestic investors were more interested in the possibility of capitalization. If, before 2006 foreign investors were trying to solve for themselves the key question – whether to come to the Ukrainian market or not, then during the period 2006-2008 they were already thinking about how to enter the market of banking services in Ukraine. Foreign investors entering the Ukrainian market of banking services invested substantial resources having the following considerations:

- 1) unstable economic situation and their own experience could bring good results;
- 2) other market participants represented by mainly Ukrainian owners did not possess sufficient resources to compete with big foreign players.

Investors had to find their own market niche and the basis for the development of their business. They did not want to overpay for a bank's size and history. Therefore, many big banks were of no great interest for investors and the different views of owners and potential buyers on their value were further decreasing the investment attractiveness of these banks. In many cases the multiplier was lower than average during the sales of big banks in the previous years. For example, the major "Praveksbank" was sold in 2008 for 493 mln. Euros with the multiplier of 4,5 while according to the results of 2007 the average-weighted value of the multiplier for the sales of domestic banks was 5,2.

In 2008 the interest of foreign investors shifted to smaller Ukrainian banks. This could be explained by the fact that it made more sense for investors to unite two or three small banks with well developed net of branches and invest additional money in their development than to found a new big bank and spend precious time waiting to receive a license. For example, in 2008 the German Commerzbank Auslandsbanken Holding AG invested 950 mln. Hryvnas into the development of "Forum" bank. During the three quarters of

2008 the authorized capital of "UkrSibbank" (the owner of the controlling block of shares – the French group BNP Paribas S.A.) increased by 55,5 per cent reaching 4,005 bln. Hryvnas. In 2008 OTP Bank increased its assets by 88 per cent up to 33,717 bln. Hryvnas. In the previous year the authorized capital of Erste Bank grew twofold reaching 1,361 bln. Hryvnas. Domestic investors also started showing interest in small Ukrainian banks, who, in order to survive the competition with foreign investors had to increase their capital and develop branch network.

In spring 2008 the situation changed significantly. Foreign investors attracted by the promises of the domestic market became the victims of their own carelessness. The falling of Ukraine's sovereign ratings reduced the ratings of the financial groups, which had become too involved in the Eastern European markets. In the beginning of 2009 this provoked a drop in securities of such European giants as Societe Generale SA, KBC Groep NV, Erste Group Bank AG and UniCredit SpA. That was a phase when international companies began to reduce the intensity and volumes of their investments in Ukraine. The investors began making decisions to work in Ukraine only if it was economically expedient.

Due to the crisis some foreign owners were even considering such radical steps as selling their banks in Ukraine, but that was not easy.

The M&A market in the banking sector came to a standstill as nobody was buying banks in Ukraine in 2009. Purchase and sales operations expected in 2009-2010 would be exceptional isolated cases.

An important aspect in the price formation of the banking business in Ukraine was that in spite of the huge number of bank purchasing agreements, none of these agreements was concluded in the period shorter than a half year; and during this time banks kept capital accumulation with the price of banks rising till the moment when agreements were to be finally signed. For example, when Raiffeisen bank was planning to buy "Aval Bank" the initial price was 860 million dollars for 93.5 per cent of shares while the buyer considered a fare price to be in the range of 400-500 US dollars. But when the agreement was finally

signed its value rose to 1028 million dollars. Very demonstrative in this respect was the selling of the joint stock commercial bank "UkrSotsbank". At first it was believed that the bank would be sold to Banca Intesa SpA for a record high price of 1,16 million dollars. In a year it was bought by UniCredit Group for twice as much as initially offered by the Italians.

However, as previously noted, the investors were interested not only in the existing businesses. They were also willing to invest in expansion. For example, the Czech PPF group purchased small "Agrobank" and "PrivatKredit" credit union for the purpose of developing retail lending in Ukraine. Agrobank was acquired only to receive a banking license as according to the data of the Association of Ukrainian banks it held only the 56th position according to its assets and 76th position according to its capital while the bank's network consisted of only 21 branches. As regards "PrivatKredit", it had already been active on the market of consumer lending and its network included three thousand trade outlets in all major cities of Ukraine.

As we see, there were a lot of factors relating to the banks' value, although, in order to make conclusions, these factors have to be united in a definite system with the definition of their interaction. Factors, which are singled out only during the analysis of purchase and sale agreements do not provide an understanding of their full spectrum. In order to get a complete picture of the banking business cost formation it is important to understand the investors' goals and to choose the type of cost, which corresponds to the purpose of banking business value assessment.

There are a lot of objectives in the banking business value assessment. They vary from determination of the business value for a further sale of the business to the assessment of managers' activities. Business focused on capitalization and increase of its own value is more attractive for investment and reliable from the point of view of risks rather than aimed at reaping quick profits. According to T. Copeland: "Companies, which focus only on short-term net profits or profit rates, suffer from the lack of foresight". So, strategies aimed at raising

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the banking business value on the market would not only preserve its present positions, but would provide an impetus to attract new customers and partners. International Valuation Standards defines market value as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion." Market value is an estimated amount corroborated by market data and obtained in accordance with legal acts.

Unfortunately, interested persons do not always possess information about the market of a certain type of services and the possibilities for its evaluation with the help of market analysis. There are some special methodical approaches to business value assessment, which make sense in the following instances:

- the company assessed is of a closed type, its shares are not quoted on the stock market (company is not a joint-stock society, but a limited partnership or a closed joint-stock society);
- the company is formally open, but it is not listed on stock markets as it does not meet their requirements (according to its size, openness of financial accounting, etc) while it does not have a constant quotation on the over-the-counter market;
- the company is an open joint-stock partnership, which is quoted on a reputable stock-market , but its shares are not liquid enough, which means that one can not trust their market value;
- the whole financial market in the country is insufficiently liquid or heavily dependent on short-term non-economic factors, which leads to unjust market value of their shares' quotation.

The banking business in Ukraine functions in the following forms: open joint-stock society, closed joint-stock society, cooperative banks and limited partnerships. According to the legislation of Ukraine, banks in Ukraine may be founded only in the form of an open joint-stock society or cooperative bank. Banks founded in the form of a closed joint-stock society or a limited partnership are

under obligation to bring their organizational and legal form in compliance with this legislation within the first three years of this Law coming into force.

Let us analyze the necessity of applying special methods in the evaluation of the banking business in Ukraine in accordance with the above-mentioned requirements.

First of all, it is important to define the form of economic management of a bank under evaluation. The dynamics of creation and functioning of banks in different organizational forms in Ukraine in the last several years is presented in Table 3.

*Table 3: The dynamics of creation and functioning of commercial banks in Ukraine in 2002-2008.*

<b>Indicators</b>	<b>Years</b>						
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Number of banks, which have a license of the National Bank of Ukraine to perform banking operations	157	158	160	165	170	175	184
including: open joint-stock societies	94	94	92	92	91	99	116
closed joint-stock societies	42	39	40	41	43	42	39
cooperative banks	1	-	-	-	-	-	-
limited partnerships	20	25	28	32	35	32	29

As we see from Table 3, more than half of commercial banks in the last five years have been functioning as open joint-stock societies, i.e. hypothetically their value can be determined by the stock market in accordance with quotations of their shares. Regarding other banks, which are functioning in the form of closed joint-stock societies and limited partnerships, we can make a conclusion that without the application of special evaluation methods it would be impossible to obtain any information about the value of their business.

In order to define the possibility to assess the value of the banking business according to the information about the quotation of banks' shares let us study the situation on the Ukrainian stock market. If shares of a joint-stock society are

traded on the market at a certain price, it is possible to calculate the value of shares in general multiplying the number of shares by the price of one share. This indicator is widely used and known as “market capitalization”. Some researchers believe that this indicator reflects the company value and that no additional calculations are required.

According to William Sharpe, a stock market exists as a mechanism for exchange of financial assets, which helps bring together buyers and sellers of securities. One of the major functions of such market is to set securities' prices, i.e. to determine such market price, which would reflect the available information about a certain security. The sooner the price is determined, the more efficient is the allocation of capital on the stock market. It is traditionally assumed that every market participant knows which number of securities he is going to buy or sell at possible prices. All participants get together and in one way or another they set the price for goods balancing the supply and demand. Today, ten institutions in Ukraine have a license to organize trading on the securities market: closed joint stock society “Ukrainian stock exchange” (USE), open joint-stock society “Eastern European stock exchange” (EUSE), closed joint stock society “Ukrainian international currency exchange” (UICE), closed joint stock society “Ukrainian interbank stock exchange” (UISE), closed joint stock society “Pridnyeprovska stock exchange” (PSE), open joint-stock society “Kyiv international stock exchange” (KISE), open joint-stock society “Stock exchange PFTS”, closed joint stock society “Stock exchange INNEKS”, open joint-stock society “Stock exchange Perspektiva”, open joint stock society “Ukrainian stock exchange”.

According to the analysis of the Ukrainian stock market carried out by R. Smith – international advisor of the capital markets development project – such number of stock trading organizers exceeds the market's needs. The conclusion can be explained by the fact that although the distribution of the number of issuers, which have their papers listed by the trading organizers, is relatively balanced, the volumes of trading indicate obvious disproportion existing on the stock market (Table 4).

Table 4: Some characteristics of securities trading organizers in Ukraine.

	Securities trading organizers in Ukraine									
	INNEKS	KISE	PSE	UICE	UISE	USE	PFTS	ΠTIC	Perspektiva	EUSE
Distribution of the number of issuers, which have their papers listed by the trading organizers as of 27.06.2009, per cent.	111,8	-	4,7	6,3	3,8	4,6	56,7	2,6	0,7	0,1
Volume of agreements per organizer in the first half of 2008, per cent.	0,23	2,48	0,84	0,18	0,00	0,04	93,26	0,01	2,86	0,00

The liquidity of Ukrainian securities market is very low. The majority of securities transactions are concluded on the over-the-counter market. According to the experts data, 90 per cent of transactions are made on the over-the-counters market. In 2005 and in the preceding years the stock turnover was approximately 4 per cent of market capitalization, which further reduces market capitalization. The majority of additional stock issues are distributed among the existing shareholders on the previously determined conditions.

As seen in Fig. 1, within the first half of 2006 the majority of securities were non-exchange listed.

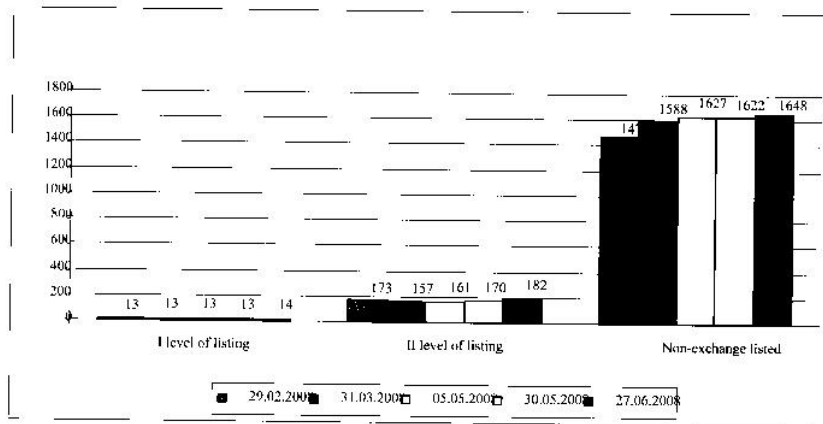


Fig. 1. Number of securities included into the stock exchange listing of trading organizers.

According to the Standard & Poor's classification, the securities market in Ukraine is defined as frontier market, which is the lowest index classification of markets by this rating agency. More than 20 countries from Europe, Africa, Asia and Latin America belong to the same category. The group of the European frontier markets includes the markets of Ukraine and its neighbors: Romania, Slovenia, Slovakia, Croatia, Bulgaria, Estonia, Lithuania and Latvia. Therefore, due to insufficient liquidity of the stock market in Ukraine a just market value of the banking business based on stock quotation is highly unlikely.

As the goal of our investigation is the research of possibilities in determining the value of banks on the basis of their market capitalization we should study the situation on the securities market. The structure of securities trading is presented in Fig. 2.



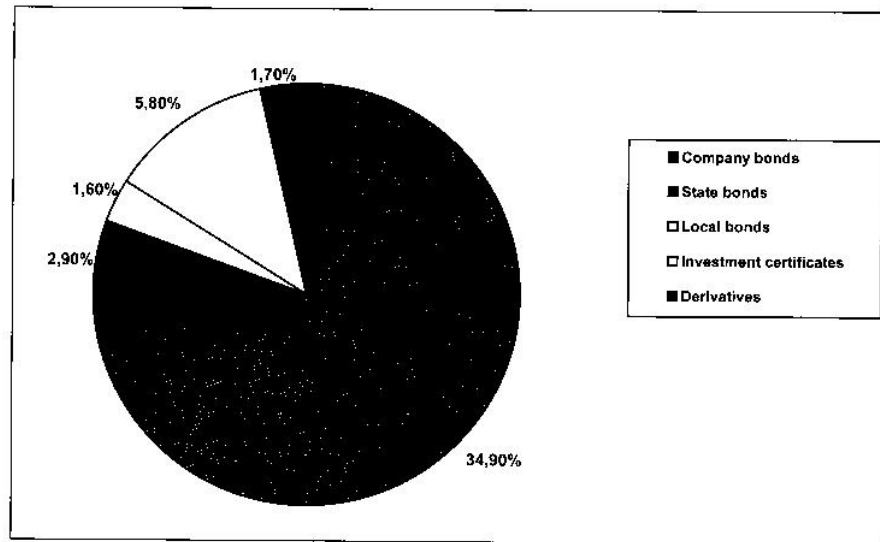


Fig. 2. The structure of securities trading as of 27.06.2008, per cent.

As we see from Fig. 2, there is a good share turnover on the stock market of Ukraine, which is explained by the issue of shares by banks. According to the State Committee on Securities and Stock Market the volume of the stock issue in 2008 in comparison to 2007 has increased by 3,69 bln. Hryvnas.

Considerable issues of shares, which had an impact on the general structure of issues in general, were made by the following issuers: OTP Bank (1,21 bln. Hryvnas), Astra Bank (980 mln. Hryvnas), UkrSibbank (930 mln. Hryvnas), NRB Bank (764,36 mln. Hryvnas), Finance and Credit Bank (723,5 mln. Hryvnas), Erste Bank (710,0 mln. Hryvnas), Alfa Bank (505,0 mln. Hryvnas), Forum Bank (500,0 mln. Hryvnas). The total volume of the registered shares of these issuers was 35,66 per cent of all shares issued in the same period.

Fig. 3 shows the number of companies by listing levels with their shares on the market of the biggest stock trading organizer in Ukraine. As we see, banks hold by far not the best position there according not so much to the quantity, but to the quality as most of them have a low liquidity of shares.

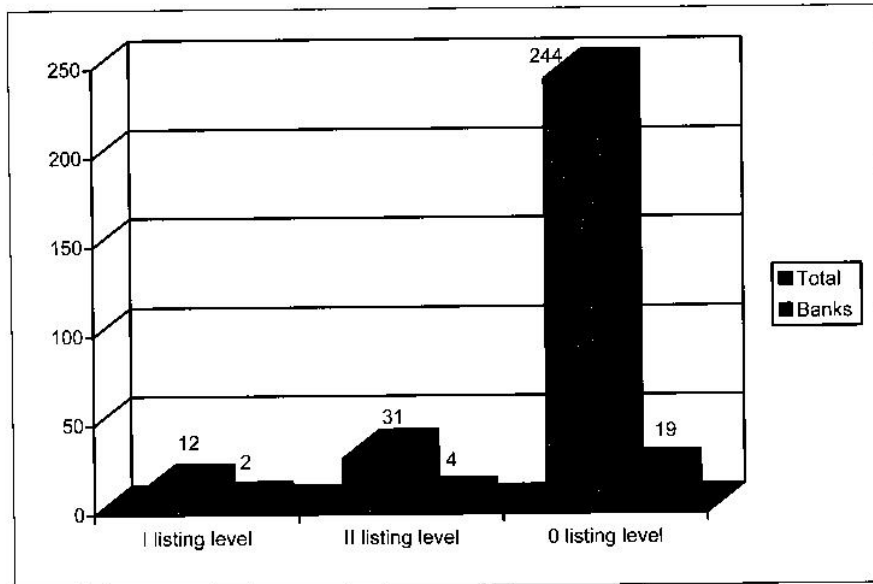


Fig. 3. PFTS stock exchange listings in 2009.

The above-mentioned analysis makes it possible to draw a conclusion that it is necessary to apply special methods of business value assessment for the banking market in Ukraine. The determination of the banking business value only on the basis of market capitalization of its shares is impossible. At the same time, even at a high level of market liquidity and liquidity of company's shares it is impossible to blindly use a stock market data in determining the market value of a business. This is explained by the complex mechanism of price formation on the stock market.

The value of securities depends on the future prospects and their forecasting. Any additional information regarding these prospects can lead to securities' overvaluation. For example, information about some well-informed investor willing to buy or sell a certain number of shares can significantly change the market value of these securities. Therefore, one proposal to make a deal can become a stimulus for other offers. Price can not only contribute to the market balance, but also be the source of information.

Another important factor in the formation of the banking business value is transparency – the ability of a bank to demonstrate how it generates and distributes profits. The value of banks for potential investors can grow if banks have surplus capitalization and this information is available for investors. Unfortunately, information transparency of banks is very low in Ukraine. The research of transparency at 30 biggest Ukrainian banks carried out by the international rating agency Standard & Poor's and the Financial Initiatives Agency of Ukraine found the following:

- There is insufficient public disclosure of information needed by investors. The transparency index – average indicator of information disclosure by banks – is lower than 49,9 per cent.
- The most efficient sources of information are banks' web-sites, which provide nearly 43,3 per cent of relevant information.
- The least relevant is the information given by the regulatory authorities (26 per cent of relevant information).
- A considerable part of financial information and information about the structure of ownership, first of all, about the owners with more than 10 per cent of banks' capital, is full enough.
- The most difficult to obtain is the information relating to the structure of supervisory councils and their top managers.
- Transparency level of banks, which have issued public bonds, is on average 8-9 per cent higher.

Generalized results of the research are presented in Table 5.

For comparison reasons, Table 6 provides data on transparency in major foreign banks.

Table 5: Information transparency indicators of Ukrainian banks 2006, per cent

Position	Name of bank	Level of information transparency			
		Total score	Indicators		
			Ownership structure, corporate structure	Financial and operational information	Structure of supervision councils and management processes
1	Ukrgazbank	71,2	71,3	73,0	65,0
2	Alfa-Bank	66,5	65,1	73,5	41,7
3	VAB Bank	66,3	71,8	68,5	49,6
4	Kredobank	58,7	64,0	61,8	37,7
5	UkrSibbank	57,8	59,3	65,1	29,5
6	Raiffeisen Bank Aval	55,7	67,7	55,4	38,8
7	UkrSimbank	54,1	57,1	60,0	25,2
8	UkrSotsbank	53,4	61,9	54,4	34,5
9	OTP Bank	51,6	58,4	58,7	16,7
10	Pivdenniy Bank	50,2	45,7	56,9	30,8
Average score of the ten leaders		58,6	62,2	62,7	37,0
Average score		44,9	49,1	46,5	32,9

Table 6: Information transparency indicators of major foreign banks, per cent.

Name of Bank	General score	Level of information transparency		
		Indicators		
		Ownership structure, corporate structure	Financial and operational information	Structure of supervision councils and management processes
Deutsche Bank	88	79	92	85
ING	81	90	77	79
ABN Amro	80	88	76	81
HSBC	78	79	78	78
Bank of America	78	84	74	82
Citigroup Inc.	78	78	78	79
JPMorgan Chase	78	72	76	86
UBS	78	74	78	79
Royal Bank of Scotland	76	75	75	79
CreditSuisse Group	71	63	75	68
Average score	78,5	78	78	79

The analysis of the data in Tables 5 and 6 confirms the need to improve the mechanisms for the disclosure of information, which is important for investors, creditors and other interested persons in order to increase the transparency level of the banking system in Ukraine.

For the determination of the value of the banking business it is necessary to use special analytical methods, which take into account the whole range of factors forming this value.

In crisis conditions the assessment of business value is very important for the managers of banks, which have survived. The management of the business market value is a long-term task. Despite the fact that banks would hardly be in a position to attract strategic investors before the final solution of the political crisis in Ukraine, the understanding of the factors, which increase the market value of the business and thus the attractiveness of banks, will allow their managers to make the right strategic decisions and carry out effective risk management.

#### **4. Conclusions**

The banking business possesses several peculiar features both from the economic point of view (considerable liabilities, which by far surpass banks' ownership capital; a big variety of operations; crucial influence on the stability of economic system; wide range of risks, etc) and from the point of view of legislative barriers, which have an impact on the value formation and its assessment. The decisive factor here is the availability of the relevant factors forming the value, specific features of information users, their target objectives, and the correspondence of the type of value to assessment goals.

Banking business in Ukraine has a number of its own characteristic features, which make it impossible to assess its value based only on the stock market data, in particular:

- 1) nearly half of Ukrainian banks function in the form of closed joint-stock societies and limited partnerships, accordingly, their shares are not quoted on the stock market;
- 2) proceeding from inefficient functioning of the stock market it is impossible to determine a just market value on the basis of the market capitalization of shares even for banks functioning in the form of open joint-stock societies;
- 3) the liquidity of banks' shares is very low, therefore, market value does not reflect business value;
- 4) non-transparency of the Ukrainian stock market, substantial fluctuations of economic situation and influence of non-economic factors do not allow an adequate technical analysis of securities and securities market in general.

Therefore, it is vital to apply special analytical methods for the assessment of banking business with due consideration of the banking activity's specific features and peculiarities of its normative and legal regulation.