



Banker's Notes

Roman OLEYNYUK

**POLISH CAPITAL
AT THE BANKING MARKET OF UKRAINE –
SUCCESSSES AND FAILURES**

Abstract

The analysis of activity of banks with the Polish capital in Ukraine is conducted. Chronology of creation and development of these bank institutions is shown, efficiency of activity is analysed, and the estimation of rightness of choice of strategy is given. Vision of author's ways of improvement of activity of banks is expounded with the Polish capital at the market of Ukraine.

Key words:

Cross-border cooperation, preferred development of retail, problem loan portfolios, shifting of strategy, introduction of trade finance, Polish-Ukrainian business maintenance.

JEL: G21; G24.

© Roman Oleynyuk, 2010.

Oleynyuk Roman, Candidate of Economic Sciences, Ag. of Assistant Professor of Department of Financial Subjects of Economy, Lviv State Financial Academy, Head of Department of Public Joint-Stock Company «Kredobank», Lviv, Ukraine.

It is quite well known that the specialists as well as the whole society pay the attention to the matters connected to the foreign banks' role in the banking systems of the nations with the economy in transition; and to the general impact of the foreign capital on development of such systems.

In this work we would like **to analyze** Polish capital activity on the Ukrainian banking market; outline main achievements and failures, and highlight **main problems** up to their background.

The aim of this article is to find out the ways for improvement of banks' with Polish capital activity on the Ukrainian market and to get the mutual benefit for both foreign investors and Ukrainian clients.

Such kind of analysis is also interesting because of the initial moment common for Ukraine and Poland. The first Polish banks appeared in the XIV century during the period when both countries were parts of sole state – Rzecz Pospolita. Initially the first exchange houses arose in Crakow and later (in XVIII century) in Warsaw.

The first mentions about bank establishments on Ukraine are on XV – XVI of century. And the main centers at first were Galychina and Podillia. The first exchange offices appeared exactly in Kam'ianets'-Podil's'kyi, and in Lviv in 1586 year in Regulations of Uspensk – Stawropigijjsk Fraternity there was a record about money advances free of interest for brothers [1].

Interesting is that birth of the independent Ukrainian banking system has the connection with Poland, namely with the cities of Tarnow and Chenstohowa.

On Decembers, 22, 1917 Central Council passed an act about formation of the Ukrainian State Participating Bank. After ascension to rulment of het'man Skoropadski, on August, 10, 1918, Council of Ministers accepted Ukrainian State bank Statute.

However civil war not gave possibility to develop to the young Ukrainian banking system. Already in February, 1919 the Ukrainian State Participating Bank was evacuated in Vinnytsya, and then placed in Ternopil, but yet later – in Zalishchyky. From here he moved to Kam'ianets'-Podil's'kyi and in end-point got on territory of Poland to Tarnow and yet after a few moves stopped at November, 1920 in Chenstohowa. In August, 1944 its property and documentation of UGB hitlerites took out in an unknown place.

By a pioneer in the revival of Polish banking on Ukraine in post-war years became Deposit-Credit Bank from Lublin. History of its penetration to Ukraine is related to development of transborder collaboration of Ukraine and Poland. Transborder collaboration in Europe has wide geography and develops during considerable time. Centuries-old history of the European continent is history of transformation of state boundaries. But if before they performed the duty of divi-

sion, then presently vice versa – a unifying tendency wears away international limits, disrobing a new epoch intergovernmental

Transborder collaboration exists within the limits of very different structures, legislative systems and territories. Its primary objective is after hurdling national borders, to coordinate joint work on questions of a social and ecological policy, infrastructure, culture, science and education, environment protection.

Expediency of realization of such collaboration does not cause doubts; in fact we live in an epoch, when global ecological problems, migration of population, ideas, and capital, and widely developed trade, mass media of world cruising radius deprive sense various attempts of the state pressurizing. Integration processes in Europe, which collect a scope, predetermine for Ukraine the special actuality of questions of choice of the civilized forms of the European collaboration on different levels. One of the most perspective and attractive variants of his realization there is cooperation of territories which belong to the different countries, within the framework of the special associations and associations which today are more known under the name the European «region». First the idea of such structures arose up in Western Europe after Second World War as a method of construction of new economic and public order in Europe, and also method of economic activation of territories. Now there are over 150 of such associations, the results of their halfhundred work practically proved the nessesity of such a form of transborder cooperation.

Forming of similar groupments actively lasts till now, considerably their geography broadened due to the countries of Eastern and Central Europe and former USSR. One of the reasons, which stipulated the increase of interest to the transborderl collaboration, and consequently and requirement in creation of corresponding institutional structures, is historical changes, and also processes of economic and political transformations, which overcame territories of these states. Confirmation of this became the creation of the European region «Bug», the constituent documents of which were signed on September, 29, 1995 in Lutsk. The founders of the European region «Bug» became the Volyn area of Ukraine, Helm, Lublin, Tarnobzeg and Zamost province of Republic of Poland. In May, 1998 it was joined by Polish Bialopodliaske province and Brest area of Republic of Belarus [3, p. 2]. As a result of administrative-territorial reform from January, 1, 1999 the Polish side in the European region is presented by the Lublin province. Organization of this association was not the result of the directive indications; it was initiated by local authorities, coming from realization, that only general actions, economies and strengthening of good-neighbourly and friendly relations, mutual openness can guarantee harmonious social and economic development of territories, which are included in the European region, improvement of life of population. Its founders followed a desire to weaken the negative action of obstacles, descendant by state boundaries, give a new impulse to the contacts between the citizens of three countries on different levels, to activate cooperation in many industries.

Presently the European region «Bug» embraces territory of almost 82 thousands square kilometre, where lives 5.3 million habitants [3, p. 4]. Its name originates from the river Bug, location of which is in a place, where three states meet, three nations, incorporated by general ethnic and cultural roots, has a historical value. All participants of the European region adhere to only position in that a mutually beneficial trade and economic collaboration must become the kernel of his activity.

For successful development of cooperation contacts between the Ukrainian and Polish subjects of economy the Deposit-Credit Bank (Ukraine) JSC was created in 1997 Luts'k, in accordance with a free project within the framework of the European region «Bug». The Deposit-Credit Bank (Ukraine) JSC – was daughter's structure of the Polish bank with the same name from the city of Lublin. However, in connection with privatization processes in Poland, a maternal bank in Lublin was included to Group Pekao SA, and at the beginning of 1998 year banks which formed a group were liquidated and plugged in the bank of Pekao SA. In August, 1999 the bank of Pekao SA was privatized. Shares were bought by : Unicredito Italiano and Allianz Aktiengesellschaft – 52,09 %, EBRD – 5,29 %, workers – 14,20 %, State Treasury – 4,37 %, nebulized shareholders – 24,05 % [4]. Today the proprietor of the Luts'k bank is a bank group Unicredito Italiano and name of bank UniCredit sounds accordingly

The second Polish bank which entered the capital to the Ukrainian market was SA Kredyt Bank from Warsaw. A process of its penetration was different from the Deposit-Credit Bank. At first Credit Bank took participating in creation of the Kyiv International Bank jointly with EBRD, Dutch Rabobank and Ukrainian partners JSC «Ukrainian financial group» and by a bank «Ukraine». However, soon after creation of this bank in 1997, the Polish bankers went out from this project (actually yet till a bank began the activity), and already in January, 1999 together with European Bank of Reconstruction and Development invested in a capital of Western-Ukrainian Commercial Bank.

It took place in January, 1999 [5]. After five years of work at the market of Ukraine, Kredyt Bank sold its shares to the State Saving Bank of Poland – PKO BP SA [6, p. 15]. In 2007 PKO BP SA bought the participation from European Bank [7, p. 20]. For today PKO BP SA owns almost 100 % shares of bank.

The third Polish structure which entered to the Ukrainian banking market was Getting Holding, which owns in Poland Getting Bank. Including of Getting Holding took place through an investment in the Ukrainian commercial bank of «Prykarpattya» from Ivano-Frankivsk. In 2007 Getting Holding bought about 82 % shares back of bank of «Prykarpattya», and today this bank with the Polish capital changed the name on Bank Plus that works on Ukrainian market.

It is short history of appearance of the Polish capital at the banking market of Ukraine, now we will analyse activity of the above-mentioned banks. Let's begin with Deposit-Credit Bank in Luts'k. At first activity of bank caused optimism, because this was the first foreign bank in Western Ukraine, and all expected that his activity would bring considerable activation of export-import operations with

Poland. However in times of work during next nine years, it was not attained until it became a property of group Unicredito Italiano. From 2002 to 2007 year financial results comparatively with Kredyt by Bank which was also entered by the Polish capital, were considerably low (see Table 1).

Table 1

Year	Capital (million euro)		Financial result (million hrn.)	
	DCB*	Kredyt Bank	DCB*	Kredyt Bank
2002	6,02	22,54	0,364	1,152
2003	6,31	20,56	not data	16,1
2004	5,71	21.19	not data	0,575
2005	9,07	38,4	0,298	0,883

*Initial name of bank.

Source: the Associations of the Ukrainian banks [8] (selection of author).

It was explained by the row of factors. At first, daughter's Bank of Pekao SA in Lutsk was local and did not have a network of branches in Ukraine. Secondly, Lutsk was not and is not the important financial center of Ukraine. Thirdly, the Polish investors did not offer interesting bank products for clients. Fourthly, the powerful competition of branches of other commercial banks hindered success. All of it stopped the bank development.

More successfully Kredyt bank (previously Western-Ukrainian Commercial Bank) was promoted at the Ukrainian banking market. Polish investor jointly with EBRD inflow into in a bank a considerable capital, gave credit lines, and inculcated interesting products for clients, which conducted foreign economic activity. Special development was given to the branch network, strengthening of material base. After a purchase Polish Kredyt Bank by Belgians, the possibility of collaboration with the European bank structures considerably widened. Credit lines and limits on guarantee confirmation and letters of credits were got in many banks of the world. However this successful development intermitted through political instability in Ukraine. Belgian proprietors of Polish, and accordingly of Ukrainian Kredyt Bank decided to move out their investments from Ukraine. A Kredyt Bank Ukraine was sold to the Polish State Saving Bank – Group PKO BP SA, about what on April 8, 2004 the contract on shares sale between «Kredyt Bank (Ukraine)» and PKO BP SA (Poland) and Kredyt Bank S.A. was signed.

The analysis of activity of Kredobank after the change of proprietor testifies about orientation on service of retail customers, on network development

with an accent on maintenance of physical persons. Unfortunately, such reorientation did not bring any success.

The same direction in its activity chose the next bank, created with the Polish capital, id est Bank Plus from Ivano-Frankivsk. Strategy on development of retail business and priority in maintenance of physical persons were declared proprietors at the beginning of activity. Desirable success was not attained after two years of activity.

After short description of activity of banks with the Polish capital we go to pass to the analysis of reasons of their successes and failures at the Ukrainian market.

Today it is expedient to consider two structures – PJSC of «Kredobank» and Bank Plus. In relation to Deposit-Credit Bank in Lutsk, as it from 2005 is a property of group Unicredito Italiano, analysis was not made.

The PJSC of «Kredobank» purchased status of bank with a foreign investment in 1999 year. As already noted, it happened after penetration into the capital of JSC Western-Ukrainian Commercial Bank (ZUKB) Polish Kredyt of Bank and European Bank of Reconstruction and Development (EBRD). In 2001 the bank was renamed on OJSC «Kredyt Bank (Ukraine)», and in February, 2002 NBU confirmed these changes. Foreign investors actively began to develop a network, regularly conducted emissions of shares, to increase a capital, and distinguished the row of credit lines to the bank. For five years the bank opened the subdivisions almost in all areas of Ukraine. Especially effective for clients were operations from maintenance of external economic relations. This direction considerably activated after penetration in a capital of Polish Kredyt Bank of the Belgian capital. The Ukrainian clients got possibility to use cheap credits at collaboration with foreign partners by means of guarantees and letters of credit of the Ukrainian bank, which accepted foreign branches and partners

The material base of bank became better considerably, the permanent studies of personnel passed both in Ukraine and in the Polish educational centers. It affected financial results. A bank entered, according to rating after different directions of activity, in the 20 best banks of Ukraine. In 2003 years a financial result presented a 16 million hrn. [9].

However in future political events prevented the successful step of this bank structure. Political oppositions began, antipresidential performances were conducted, the signs of instability appeared. It disturbed first of all the Belgian bankers, and they made decision to sell the part in the capital of the Ukrainian bank. After this decision development of bank and activity of personnel was halted. Procedures of acquaintance of potential investors passed with a bank, so-called audits due of diligence, id est realization of comprehensive verification of commercial attractiveness.

Undoubtedly, in such situation bank could not work effectively, and next year a financial result fell down to 575 thousand hryvnyas [7, p. 22].

Procedure of sale made off in August, 2004, and the Polish State Saving bank (PKO BP SA) became the new proprietor of the share holding, and in March, 2006 the bank was renamed to JSC «Kredobank». In July, 2007 PKO BP SA bought from EBRD their part of shares in the capital of JSC «Kredobank» and became the individual investor of this Ukrainian bank.

The analysis of further activity of bank shows cardinal changes in his strategy. New proprietors made decision about the change of accents on the foregrounding of retail clients. For embodiment of this strategy it was the created program of expansion of network of bank due to small separations for complex maintenance of physical persons, bank products were inculcated for crediting of purchase of cars, accommodation, and domestic technique. Such programs require considerable money on the equipment of apartments, technical and skilled providing. The result of such changes at the beginning was a stormy height of volumes of crediting and expansion of client base. However in two years the certain symptoms of worsening a credit appeared at a bank.

For maintenance of financial stability proprietors constantly conducted additional emissions of actions and the property asset of bank, which diminished through losses which arose up through forming of considerable backlogs on a bad credit brief-case, was increased the same. After 2008 and 2009 the losses of bank exceeded one milliard of hryvnias. Principal reason of it was an accumulation of considerable reserves on an off-grade credit brief-case. The stage of origin of problem credits came, which entailed the extra charge of backlogs, loss of profitability of many subdivisions and in end-point their closing.

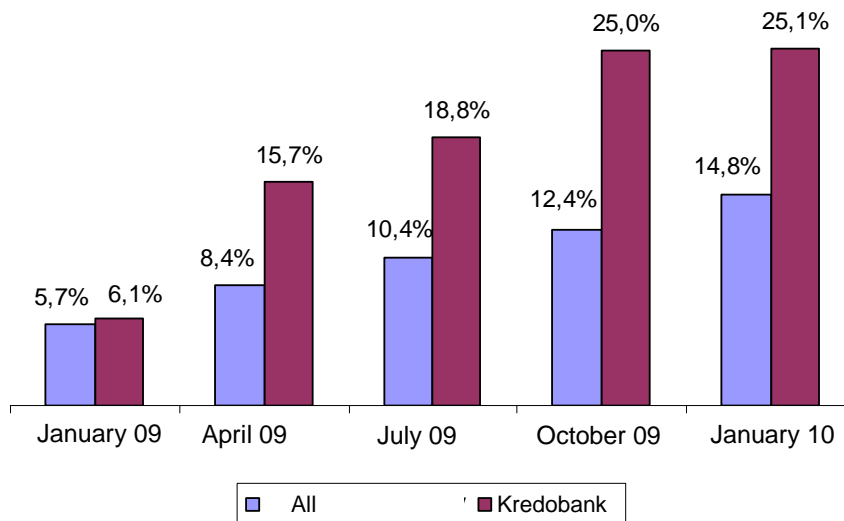
All above-mentioned is history and consequences of activity of banks with the Polish capital at the Ukrainian market, and reasons of such results requires more detail analysis.

We will begin from PluS Bank. To arrival of investors a bank practically worked as establishment of universal type, served corporate and retail clients. The bank was regional, with a quite good image and stable financial state. After appearance of the Polish investor bank changed not only name but also strategy. The priority direction of crediting on physical persons was certain. In Poland investor of bank of «Prykarpattya», Getting Bank, in basis of the strategy has maintenance of physical persons, and it brings good results to it. The experience and work of the Polish investors planned to be implemented in Ukraine. But they were not successful here.

What was reason of these failures? First of all there are differences in the legislation of Ukraine and Poland. Secondly, level of profits of Ukrainian families. Thirdly, ignorance of realities of Ukrainian reality, Ukrainian market, Ukrainian mentality and potential possibility of imitation by client's of their documents.

Figure 1

Correlation of the charged extra backlogs to the given credits



Source: authorial selection on the basis of given account NBU and Annual report of «Kredobank».

We will consider these factors detailier. In relation to legislation, then here a main difference between the Ukrainian and Polish laws showed up in rights of creditors. Today the Ukrainian banks practically do not have the legislatively vested rights on defending of the interests before the malicious defaulters of credits. Cases in relation to clients, which do not want to return debts, are of long duration and uneffective, collector companies do not have concretely certain legal rights also, and all of it results in piling up of debts banks. So in such a case debts result in the accumulation of reserves and accordingly to material losses.

Now start to relation to the level of profits of the Ukrainian citizens. If in Poland an average monthly salary in March, 2010 presented 2398 zloty [10], that in a count on a hryvnya (at the course of NBU of a 2,4–2,5 hryvnya for a zloty) [11] presents over 8,5 thousands, then in Ukraine this index presented 2109 hryvnyas [12]. It testifies to considerably higher solvency of the Polish clients, comparatively with Ukrainian. Except it, the Polish citizens as members of EU have far the best possibilities of labour official migration, and thus, access to higher payment of labour outside a country.

Knowledge of market, on which a bank works on, is also one of determinatives, but the Polish proprietors did not learn those differences in functioning of relations between banks and clients in Ukraine, which in future influenced on results. It touches first of all absence of objective databases about clients. In Poland there are the so-called Bureaus of Economic Information and Bureaus of Credit Information, which give both positive and negative information about clients. In Ukraine only activity of Credit Bureaus begins and quite there are not structures which would collect positive information about clients.

Poland does not have such mass imitations of documents about the profits of clients, place of their labour, residence. All these factors which promote the risk of crediting considerably were not taken into account and it was resulted the same in delivery of credits which did not have a chance on returning. The amount of cases of improper attitude grew toward verification of documents from the side bank workers, which for the sake of bonus did overfulfilling of plan which did not adhere to the set procedures. Undoubtedly, it was not taken into account crisis period which entailed the loss of workplaces many clients, jumps of foreign exchange and the same the loss of payability by Ukrainian.

In an aggregate such actions resulted in an uneffective result, increase of backlogs and closing of a number of bank institutions.

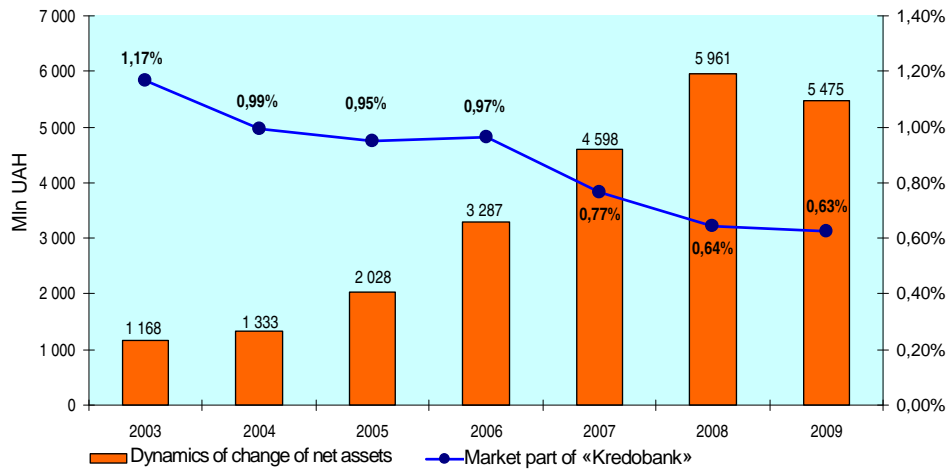
In relation to PJSC of «Kredobank», then in principle analogical errors, which, except it, increased an uneffective skilled policy, were suffered in activity of the Polish investors. Both in «Prykarpattya» and in «Kredobank» strategy was changed in direction of activation of retail business. In Poland a bank of PKO BP SA is a bank with an enormous network and considerable experience with a population, however, as it was already said higher, this experience can not be copied in.

Except the choice of unsuccessful strategy, guidance of PKO BP SA did not find professional, from the point of view of knowledge of market of Ukraine, bankers for guidance by a bank. The cowsheds of review broker's, members of rule, changed constantly; mass the Polish specialists arrived on positions of directors of departments. The terms of their labour were short however, and the results of activity did not give an effect. The loss of market position from direction of maintenance of the Polish-Ukraine trade relations resulted in the loss of clients, and it decreased yield of bank transactions. The first half-year of 2010 a bank made off with a negative result, and as yet the Polish proprietors did not offer the real strategy for proceeding in market positions of PJSC «Kredobank».

As a conclusion we can said, that the Polish capital in the Ukrainian banking system played a positive role, especially in 2000–2005 years. Significant sums of investments were attracted, quite bit credit lines are open, and it assisted to development of the Ukrainian economy. The Ukrainian bankers got from the Polish colleagues considerable experience, possibility to extend the contacts with the European bank structures. However abandonment from development of direction of corporate bank services resulted in failures.

Figure 2

**Dynamics of change of net assets and market part of «Kredobank»
 in a sector in 2003–2009 (Min. UAH)**



Source: authorial selection on the basis of given account NBU and Annual report of «Kredobank».

It was first of all necessary, serving corporate business, and especially shallow business, to bring up the retail clients. High-quality servicing of legal entities assists the increase of their incomes, increase of trust to the bank and the same to bringing in of them as retail clients, and together with the workers of firms the members of their families, and acquaintances, come in a bank. The Polish proprietors lost a case to develop maintenance of the Polish-Ukraine trade relations, and it for banks which function in a frontier area is perspective direction. Other banks, especially with the European capital, gradually can sort out on itself maintenance of the Polish-Ukraine export and import.

Undoubtedly, everything can be yet changed, and thereon it would be desirable to mark in the article. Change of strategy in direction of input of active maintenance of border trade, financing of investment projects from the Polish side in the Ukrainian enterprises, introduction of document operations for inter-governmental trade of Ukraine and Poland must bring success. We will hope on these positive changes.

Bibliography

1. Грудзевич Я. В., Комаринська З. М. Банки Львова : минуле і сучасне (с. 11).
2. Комаринська З. Банківська система України періоду державності 1917–1920 рр.: становлення та реалії функціонування // Вісник Національного Банку. – 2002. – № 2. – С. 56–59.
3. Клімчук Б. П., Луцишин П. В., Луцишин Н. П., Федонюк С. В. Євро регіон «Буг»: зовнішньоекономічна діяльність Волинського суспільно-територіального комплексу. – Луцьк: Волинський державний університет ім. Лесі Українки, 1998. – 198 с.
4. Олейнюк Р., Жуковська Г. Іноземний капітал в банківських системах Польщі та України (порівняльний аналіз) // Журнал європейської економіки. – 2003. – Вересень. – Т. 2. – № 3. – С. 363–384.
5. Річний звіт АТ ЗУКБ за 1999 рік, публікація АТ ЗУКБ.
6. Річний звіт ВАТ «Кредит Банк» за 2004 рік, публікація ВАТ «Кредит Банк».
7. Річний звіт ВАТ «Кредобанк» за 2007 рік, публікація ВАТ «Кредобанк».
8. Інтернет-ресурс: сайт Асоціації українських банків, аналітика , основні показники діяльності банків. http://aub.org.ua/index.php?option=com_arhive_docs&show=1&menu=104&Itemid=112.
9. Річний звіт ВАТ «Кредит Банк» за 2003 рік, публікація ВАТ «Кредит Банк».
10. Інтернет-ресурс: Сайт Головного статистичного управління Польщі, інформаційний портал, http://www.stat.gov.pl/gus/wskazniki_makroekon_PLK_HTML.htm.
11. Інтернет-ресурс: Сайт Національного банку України, статистика, офіційний курс гривні до іноземних валют http://www.bank.gov.ua/kurs/last_kurs1.htm.
12. Інтернет-ресурс: Сайт Міністерства економіки України, основні показники економічного і соціального розвитку України http://me.kmu.gov.ua/control/uk/publish/category/main?cat_id=78198